CONFRONTATION or COOPERATION
proceedings

31st
Midwest
Milk Marketing Conference

March 23 & 24, 1976
The Ohio State University
Columbus, Ohio

CONFRONTATION OR COOPERATION

Proceedings of
The Thirty-First Annual
Midwest Milk Marketing Conference

March 23-24, 1976

The Ohio State University
Columbus, Ohio

Prepared by
The Department of Agricultural Economics and Rural Sociology
The Ohio State University

Edited by David E. Hahn

Officers of
Midwest Milk Marketing Conference

1976 Officers

President	- Donald E. Zehr, General Manager Central Ohio Cooperative Milk Producers Association Columbus, Ohio
Vice President	- Tim Mogan, Manager Kyana Division, Dairymen, Inc. Louisville, Kentucky
Secretary	- David E. Hahn, Associate Professor Department of Agricultural Economics and Rural Sociology The Ohio State University Columbus, Ohio
Treasurer	- E. K. Vickrey, General Manager Miami Valley Milk Producers Association Dayton, Ohio

1977 Officers

President	- Tim Mogan, Manager Kyana Division, Dairymen, Inc. Louisville, Kentucky
Vice President	- Gary Hanman, Executive Vice President Mid-America, Inc. Springfield, Missouri
Secretary	- Robert L. Beck, Associate Professor Department of Agricultural Economics University of Kentucky Lexington, Kentucky
Treasurer	- Robert Brewer, President Cincinnati Cooperative Milk Sales Association Cincinnati, Ohio

TABLE OF CONTENTS

INTRODUCTION

The theme of the Thirty-First Annual Midwest Milk Marketing Conference, Confrontation or Cooperation, is based upon the two primary areas of interest confronting the dairy industry today -- the role of the federal government in determining prices for milk and dairy products and the role of dairy cooperatives in marketing these products. In keeping with the bicentennial year, the relationships of the Land Grant Universities, dairy cooperatives and federal milk marketing orders to the dairy industry also were examined.

Two excellent presentations are not included in these proceedings. These presentations, which added much to the program, were "Welcome to Ohio," by Dr. David H. Boyne, Chairman of the Department of Agricultural Economics and Rural Sociology, The Ohio State University, and "Bicentennial Importance - Past, Present, and Future," by Dr. Frank W. Hale, Associate Dean of the Graduate School, The Ohio State University.

Dr. David Cummins, Agricultural Economist, United States Department of Agriculture, Washington, D.C., planned to report the results of a recent study, "What Does It Cost to Produce Milk." This study was not completed in time for the conference. As a replacement, Dr. Charles Shaw presented "Situation and Outlook for the Dairy Industry." Dr. Shaw's paper is included in these proceedings.

The U.S.D.A. study "Costs of Producing Milk in the United States, 1974" has since been completed. Copies of the study can be obtained by writing to the United States Government Printing office, Washington, D.C., 20402. The identification number of this study is 72-184. The study title and identification number should be used when requesting copies of the study.

A Critique of the University, Dairy Industry Relationships, Past, Present and Future

Elmer Baumer
Associate Dean Graduate School and
Professor of Agricultural Economics
The Ohio State University

This paper will trace the close and continuing interdependence that has existed over the past 100 years between state universities and the agricultural sector. Special emphasis will be given to agricultural cooperatives especially those associated with the dairy industry. An evaluation will be made of some of these interrelationships and of their implications for the future.

First, some basic background about our forefathers that played an important role in the development of the food industry in this country. Farmers historically were strong advocates of the free enterprise system and free competition. Thomas Jefferson described the small farmers as exemplary, self-reliant citizens. Jefferson seemed to have an intuitive sense of laissez-faire, a concept that had been popularized by Adam Smith in his Wealth of Nations written in 1776. At that period in this country's development, the economic concepts set forth by Smith represented quite well the spirit of free trade and independence that flourished in the agricultural sector regions of this country.

Such basic, independent views of buying and selling prevailed until the latter part of the 19th century. Farmers then became aware of the power held over them in the market place by the large grain trusts and by the railroads. Their solution to these menaces was to support legislation to control monopolies, and they therefore strongly supported the passage of the Sherman Act in 1890. While this legislation was somewhat effective in certain segments of the economy, the marketing problems of farmers were not adequately resolved. In 1911, Congress passed the Clayton Act to further strengthen the anti-trust laws. Even with the passage of these acts, it was evident that the individual farmer could no longer effectively represent himself in the marketplace.

At this point, farmers began to recognize the need for their own organization to counter the position of the buyers of their products. This kind of action was later identified by J. K. Galbraith as countervailing power and it exists in many forms in most of today's markets. In the whole history of agricultural organizations, these early efforts at organization were some of the most turbulent. Anti-cooperative interests insisted on the enforcement of the Sherman Act which they claimed outlawed such organization efforts. This brought on confrontations. Some farmers were arrested and sent to jail for their efforts. Out of this turmoil, the Capper-Volstead Act was passed in 1922 to allow farmers to organize into cooperatives without being in violation of legislation they helped pass to control the power of the large firms.

Dairy farmers were among the first to organize to correct some serious marketing problems that were prevalent in this industry. Because of the perishability of the product, dairy farmers were especially vulnerable to market exploitation. These early efforts at cooperative marketing generally fell short of expectations, but the cooperative approach was definitely launched. Those who assumed responsibility for organizing farmers had to overcome some of the self-reliant attitudes of farmers that Jefferson so admired in them. Membership was frequently spotty, thereby materially affecting the ability of the organization to carry out its goals. Some of these feelings still exist today but with a somewhat ironic change in tone. In the early days, the anti-cooperative interests told farmers not to join cooperatives because they did nothing very significant and clearly did not amount to anything. In fact, to make this point more obvious and also to undermine the influence of cooperatives, there were instances when non-members were paid higher prices than members. The irony is that some of these same interests are now telling farmers that they should not join cooperatives because they are said to be too powerful and constitute a monopoly threat in the market.

Many of these early efforts at organization and cooperative marketing failed. While in many instances the organization management sponsored good marketing programs, they simply did not have the "market clout" to carry them out. For example, any organized pricing system for milk requires an accurate information system. Generally, the coops were unable to require buyers to furnish a complete accounting of their purchases. Exaggerated seasonal production patterns also played havoc with marketing programs. Most cooperatives were unable to effectively deal with this problem. By the mid 1930's, there was abundant evidence that governmental assistance was necessary if effective programs were to be carried out. This resulted in passage of the Agricultural Marketing Act of 1937, setting up the Federal Order program. More will be said about this development later.

There was another early action by Congress that deserves our attention. In 1862, the Morrill Act was passed that established land-grant colleges in each of the states. Subsequent legislation, the Hatch Act in 1886, set up Agricultural Experiment Stations connected with these institutions. One major objective in addition to providing low-cost educational opportunities to all citizens, was to support research in the production of food and fibers to assure an adequate supply of food for our population. Funds were made available to scientists to apply their research skills to the agricultural production problems of the country. Almost every food product was placed under the microscope to determine new and improved methods of production and the development of new products for the consuming public. To say these efforts were successful would be a gross understatement. Consider for a moment that in 1910, 35 percent of our population were required to produce the food and fiber needs of this country. By 1945, that percentage had been cut in half to 17.5. In 1974, the percentage was 4.4 and in addition to taking care of our own needs, we exported over 20 billion dollars worth of agricultural products.

This is not to argue that these research efforts were solely responsible for today's high standard of living, but it was probably the most important single catalyst. It is one of the most striking examples that an investment in basic research pays big dividends. Many of the new breakthroughs were the result of the application of basic research findings to a vexing problem of the day. It was our ability to go to the "reservoir of knowledge" and find facts that, when combined with other such research facts, resulted in significant advances.

It is time we examine our current priorities to see whether society today is as interested and willing to support basic research as were our forefathers. Are we a society interested only in using up our resources without heeding the possible consequences or are we also interested in providing new knowledge for use by future generations? In recent times, funds for basic research have been most difficult to obtain. For our scientists in the Colleges of Agriculture, most of the research funding has come from the Department of Agriculture and to a lesser extent from the National Science Foundation. In recent years, however, some persons in a position to affect research funding, have apparently placed far more importance on research efforts aimed at immediate problems of the day and openly discouraged or refused to support basic research. In fact, in recent years, politicians have sometimes called attention to research project titles and held them up for public ridicule. It is very easy to belittle a research project such as an analysis of the sex life of the flea. But it is no laughing matter when the results of such research help provide an alternative to ecologically damaging chemical insecticides.

It is time to reacquaint the general public with the necessity for long run basic research. Organizations such as those represented here have a high stake in the future opportunities provided to scientists to explore the unknown. More direct interest and involvement in research funding is needed. When research dollars are being allocated there are too many voices being heard which represent narrow corporate interests and not enough from those representing society's views. It may be that the dairy industry, like some other industries, must consider more direct support of highly skilled scientists through direct support of research or by support of endowed chairs. One might also consider the direct support of graduate students interested in this industry. Such students are often the most prolific in generating new ideas.

While these comments have focused mainly on product technologies, the resulting marketing problems were just as difficult. The introduction of such mass technology brought with them dynamic societal changes far in excess of anything anticipated by the scientists or by the originators of the legislation or by the adopters of the new technologies. It became quite clear in the 1930's and 1940's that the new technologies available to various segments of the dairy industry gave significant scale economies to those in a position to use them. Consequently, large dairy firms made their appearance in most major markets often operating out of regional centers that included many markets. It should also be recognized that the technologists, concentrating on the production of milk, developed cost-reducing techniques and scale economies that were equally beneficial to producers. One long run effect of these were to contribute materially to the migration of people from farms to urban centers.

By the early 1940's, it became abundantly clear the cooperatives operating in individual markets were not able to bring about orderly marketing without governmental assistance. This brought about the rapid adoption of the Federal Order system in the '40's and '50's. This system brought with it new methods of pricing, all designed to reduce the possibilities of exploitation and bring about equity and fairness. Prices paid farmers for milk could no longer be used to finance price wars at the retail level. Processors were required to account for their purchases from farmers in terms of the products sold. This is a gross oversimplification of what has developed into a complicated procedure that can only be appreciated by those directly charged with administering the provisions of the orders. The fact that it has become complicated, however, should not reflect negatively on the system so long as it carries out the primary goals of the legislation.

During this period of the 1940's and 50's, the Research and Marketing Act provided universities with funds to attack the growing marketing problems. Commodity marketing specialists were appointed to the faculties at most universities and they became very active with research efforts to develop new knowledge in the buying and selling of the product. In the major dairy states of the nation, there were active research projects dealing with ways to make the producer organizations more effective, increasing the efficiency of the processing industry and supply-demand studies that were essential in the development of the classified pricing system.

Marketing specialists at many universities engaged in studies that assisted in the development of the economic rationale for determining price relationships among products. These research projects dealt with changing patterns of consumption induced by changes in age distribution, health publicity and weight consciousness. New intense competition has developed for the consumer dollar from substitute products that materially altered the percentage of the food dollar spent on dairy products. Such studies continue today and are essential for anticipating future changes in market demands. In addition, major research projects were undertaken on a regional basis. These projects offered an opportunity for researchers to combine their efforts on problems that were quite regional in scope. To a considerable extent, such research efforts were dictated by expanding market supply areas, the intermarket movement of dairy products and the large scale multi-market firms which began to dominate the industry. Cooperatives associated with individual markets were often at a disadvantage and operating a cross purposes in attempting to provide a market to their members. While cooperative services such as checking producer weights and tests were important, and continue to be, they became overshadowed by market manipulation that could materially alter returns to the individual producers. It was mainly these regional research efforts and the regional marketing problems faced by the producer organizations that brought about this annual conference. Such opportunities for exchange of ideas have played an important role in determining the direction of this industry.

With respect to the present, there are two additional developments that deserve our combined thoughts. One has to do with the extensive growth of cooperatives brought about by the need to be in a position to market milk in today's markets. Until recent years, the main buyers of farmer's milk were the large processing firms whose major interests were almost wholly with dairy products. In recent years, the number of dairy processors has declined materially and many of the large processing firms have diversified their business to such an extent that their interest in dairy products is no longer primary with them. The major marketing power has shifted from the processors to the retailers. This has necessitated a marketing strategy by the cooperatives that has materially altered the extent of their involvement in the market. And this development should cause us to review the legal foundations of the organizations. As mentioned earlier, the legal foundation for cooperatives was the Capper-Volstead Act. It was passed to allow farmers to organize but no one in those days envisioned the kinds of organizations we have today. In this connection, Dr. Ronald Knutson has been exploring the prospects of joint corporate-cooperative ventures and their possible existence under the Capper-Volstead Act. If cooperatives are somewhat less restricted by this Act, then what are the parameters within which they operate and how do cooperatives decide on vertical integrations and corporate mergers? As these organizations become larger and their actions more conspicuous, they need to be aware that those programs formally engaged in when they were smaller may now be considered illegal by some courts. This position has already been taken by the Supreme Court with respect to corporate firms.

We must be aware that the structure of the cooperatives can put severe strains on the Capper-Volstead legislation. Furthermore, this legislation is no longer being used exclusively by farmers who wish to organize. Today we have cooperative organizations dealing in real estate, housing developments, news services and many others. The increased calls for repeal of Capper-Volstead are a cause for concern and deserves our immediate attention.

The other major development involves this industry's stake in the development of a world food policy. Presently, we have no world food policy and as a result, violent domestic food price fluctuations often occur whenever unforeseen events take place around the world. This has generally reflected negatively in this country on the agricultural interests, yet they reap few, if any, of the rewards. The dairy industry has an important stake in such a world food policy. Dairy products have a world demand and in our efforts to respond to these world needs, we cannot have the burden of the resulting price fluctuations fall on the shoulders of the producers. For example, a trade-off of grain exports for dairy product imports is no way to solve the world food problem. The obligation to help feed the hungry of the world should be borne by all segments of society.

It seems to me that we must be realistic in developing a world food policy. Our foreign neighbors are no more interested in depending on us for their food than we are for depending on the Arabs for our oil. But what are the possibilities for a policy based on interdependence? It is entirely possible such interdependence would create more real world peace than the threat of military action.

It is also unrealistic to give the impression that we can feed the world. We need more attainable goals that involve a more continuing commitment. Waiting for crop failures in foreign countries or disaster relief give no bases for the development of a production potential beyond that required to feed our own people. One cannot expect public support of the sale of foods to foreign countries when one result is a substantial increase in the domestic price of food.

I am also not convinced we are making as much progress as we might in solving the world food problems by training able students from developing countries. The objectives of these programs are excellent, the only problem is that, in far too many instances, they are not being carried out. Many students are brought here to pursue Ph.D. type training in disciplines that have little or no relation to the food problem of their people. One other pitfall of these programs has been that for some countries the trained students do not return but rather stay in this country. I do not object to the enrollment of foreign students in our universities, in fact, quite the opposite. They add immensely to the cultural development of all students and for the most part, they are competent. The problems is that if the objective of the foreign country was to send the high ability student to this country so they can be of increased service to their people and if we provide the educational opportunities for the same reason, then we need to insist on them returning to their countries. We do not assist a developing country by contribution to the brain drain.

In conclusion, I think it is abundantly clear that the organizations responsible for the marketing of dairy products have a most successful track record. I also feel confident that those of us associated with this industry through our Land Grant Universities have played an important role in the advances that have been made. It is fair to say that the dairy industry has developed a strong and workable system of producing and marketing its products. I doubt there is another like it anywhere in the world. Much of this progress can be traced to the results of basic research efforts and it is therefore important that the reservoir of knowledge from which we drew many of the basic answers receives our full and continuing support.

It is also important to realize we are in a new era and that our past successes are not a guarantee for the future. Some of the foundations upon which the system has been built needs review. Enabling legislation written fifty years ago may not allow the flexibility necessary to function effectively in today's markets. The very size of the organizations is being questioned, but it is obvious to anyone who knows the nature of this industry today that any marketing organization worth its salt must be large if it is expected to possess a level of influence comparable to that of the processing and retailing industries. Of necessity such large organizations will attract the public eye and therefore be subject to some criticism.

Furthermore, success does not go unnoticed. It is not realistic to think other industry groups have not closely scrutinized such legislation as the Capper Volstead Act to determine any possible relevance to their industry. There are some real dangers in the development.

Finally, the dairy industry should play a major role in the development of any world food program. The potential impact that such programs can have on this industry dictate that we put additional emphasis and resources in this direction.

A Look at Challenges to the Role of Dairy Cooperatives in Our Society

by

Randall E. Torgerson, Administrator
Farmer Cooperative Service
U. S. Department of Agriculture

As I travel around the country today, I find five major issues of concern to people. Each in its own way represents a challenge to the future role of dairy cooperatives. The first issue is who is going to control farming? In my estimation this should be the number one issue on our national agricultural policy agenda. The issue is brought into limelight by such things as the entry of nonfarm people through use of tax shelters into the agricultural production. This is found in such areas as beef, hogs, and yes even dairy production. It is also brought into focus by corporate entry into farming as is found in the poultry industry, primarily broilers and turkeys and also corporate feeding of beef animals. If farmers in the future are to retain their role in a dispersed agriculture and their basic entrepreneurial prerogatives, it is clear that they must have organizations as marketing tools in order to represent their economic interests. Cooperatives are a tool for the survival of farm operators in a market oriented agriculture, but they can only fulfill this role if the rules of the game are played in a fair and equitable manner.

A second issue, closely related to the first, concerns the adequacy of pricing mechanisms in agriculture. This issue is not new but one of continuing concern to farmers. In the recent decade there has been considerable focus about outmoded pricing mechanisms and recently we have all read comments about the questionability of "yellow sheet" pricing of meat, and the thinness of markets for grain, manufactured dairy products and other commodities which are traded on the traditional spot markets. There is a feeling of need for new innovation to improve or replace archaic and obsolete mechanisms in agriculture. Cooperatives traditionally have not been tuned into these changes but have followed an operational practice of pricing at going market levels. If more contracting takes place in one form or another, it is natural that we will see increased negotiating over prices as a means of price determination. New legislation is necessary to implement this process if it is to become more widely adopted. Similarly if producers desire a more competitive market, then opportunities available through electronic exchange pricing for livestock, grain and other commodities serves as an apparent answer. In any case there is need for having a barometer that adequately reflects the value of farm products at the farm gate level. Farmers continue to express this need and view it as an important factor in keeping farming in their hands.

A third issue of concern is the land tenure questions. A ground swell of concern can be identified over this general question. Some of this is stimulated by proposals to allow much easier intergenerational transfer of farms from father to son without incurring large tax burdens. Farmers have been widely known for living poor but dying rich because of the appreciation experienced in land values reflecting one of our scarcest national resource. But there has also been considerable pressure put on this by nonfarm speculation investment which has stimulated quite an inflationary impact on farm land values. Some of this has been done simply for investment purposes; others for speculative land development purposes. The high cost of entry by young farmers with a small equity base into farming and the reluctance of farm mortgage lenders to make conventional mortgage loans to these higher risk operators make it a tough call with respect to future questions of who owns the land and who controls farming in this country. Land values as we know have doubled in the last two years. Since mortgages for new acquisitions are very high, lenders have found that it is difficult for young farmers to meet carrying charges of these large loans. Some people inquire whether we can continue to have the farmer in the traditional entrepreneurial role as one who owns land, furnishes labor, capital, and management to the farm production enterprise. They ask whether nonfarm capital will come into agriculture as the only alternative or will new institutions develop of necessity to retain the dispersed agriculture and family farm concept. In regard to the latter alternative, some consideration and discussion has been given to development of a long term lease of farm land as currently used in such countries as Britain and Denmark.

A fourth concern expressed by public interest groups and consumer advocates is about whether marketing institutions and government programs established in times of food surpluses and depressed farm incomes are appropriate now in times of food shortages, such as we have experienced in recent years. This issue is one that cooperative leaders can not take lightly since in many respects it is the genesis of concern expressed publically about cooperatives and marketing isntitutions such as marketing orders. Clearly, it is also a problem which is not going to go away for we will continue to have a delicate world balance between supplies of food and food demand in the immediate future. Each of these issues has a tremendous impact on cooperatives and from my perspective represents a new challenge to the role of cooperatives which must be taken into consideration in planning by dairy cooperative leaders.

But the fifth and perhaps one of the biggest issues in this bicentennial, presidential election year is "populism". It is an expression of mistrust in big business and big government and the desire to give people more direct access to government in the economic activity that envelopes their lives. This issue has been fanned by several candidates and to protect their position other presidential candidates have picked up the cry for the return of power to the citizenry -- and for more control over "big" business who's growing presence ostensibly, stifles competition. For purposes of this group, one of the focal points is on strengthening of antitrust laws.

The populist issue is fueled by:

--Widespread corruption in the business community including bribes by defense contractors, oil companies and major grain firms,

--Corporate campaign contributions by business firms and two dairy cooperatives leading to and as an aftermath of Watergate,

--The Administration's call for review of government regulatory activities, including federal marketing orders, for their impact on inflation,

--Consumers outcry about food prices <u>and</u> their desire for more economic representation and input into regulatory activities of local, state and federal government,

--and Congressional and Administrative support for amendment to basic anti-trust regulation including:

1. The rights of state's attorney generals to institute suits for collection of damages in behalf of citizens,

2. Require big companies to notify the Justice Department 30 days before a merger, and

3. Broaden the Justice Department's authority to require testimony under oath in civil investigations of anti-trust cases.

It is ironic that cooperatives have been caught up in these converging forces. For cooperatives after all are the "Little Man's" -- or those like farmers who are characterized by atomistic structure -- means to participation in our capitalistic system. Cooperatives are the checkpoint and balance wheel in our economic system that assure access to markets and survival in an increasingly concentrated and vertically integrated market place.

However, a feeling pervades in some quarters such as Congressional Committee staffers, consumer groups, the media, and some agencies of government, yes even a few in the USDA, that cooperatives have become something they were never intended to be:

--That cooperatives have become just another business,

--That they are run by and for the benefit of management, not members,

--That cooperative growth -- sometimes conglomerate -- defies notions of "local" operations and involvement,

--That if you're big and basic enough to be effective, like some cooperatives with over $1 billion in sales, you must have close government scrutiny like other big business,

--That some cooperatives have taken on something less than pure form through use of subsidiaries and "joint" venture arrangements with non-cooperative firms, and that some cooperatives have taken on some "suspect" memberships, and

--That as cooperatives become successful, they tend to loose their social consciousness.

Now as cooperative leaders we have to take these charges seriously. There has never been a time when the image of cooperatives has been in such disrepair. Importantly, it is in disrepair in circles that will make decisions about cooperatives and the legal-economic environment they are allowed to operate in for coming generations. Since these decisions have tremendous gravity concerning the future economic organization of American agriculture, it is imperative that cooperative leaders identify sources of misgivings and take affirmative action to deal with them.

The image problem particularly acute on the Washington scene where the press and other elements attempt to make political hay from a tax on farmer cooperatives. These attacks are made with precious little appreciation for the hard work, sweat and tears that went into organizing farmers through their voluntary organizations. Clearly cooperatives are the end product of much effort, determination and sacrifice on the part of farmers. They are too valuable and essential to the farmer -- and to the public interest -- to let this erosion of the farmer cooperative image continue unchecked.

Now who can we identify as launching the principle sources of attacks on cooperatives? It is my observation that these attacks can be identified stemming from essentially three different groups. The first group are traditional opponents of cooperatives. They have been attacking cooperatives from one decade to another for many years. They are essentially marketing and supply firms that dislike competition stimulated by cooperatives and who are often organized through associations or other trade groups. Typical of these are the past efforts of the National Tax Equality Association and more recently the very active role of the National Association for Milk Marketing Reform. In addition traditional processor lobby groups are known for making strong cases against cooperatives whenever the opportunity avails itself in the corridors and before various Congressional hearings and other meetings. Since economic power often manifests itself politically, evidence of the stronger struggle over who will control agriculture continues to be played out in Washington, D. C. in the political arena. Clearly agriculture isn't as well organized as it should be. We only need to ask ourselves, who's the George Meany of Agriculture?

The second broad group which is relatively new to the Washington scene is a myriad of consumer advocates and "public interest" spokesmen. Essentially this group has been looking for villians in the food price spiral. They are given considerable credibility by virtue of the tremendous food price consciousness that we find throughout the United States today. It is a sign of the times that people appear happy when the stock market is going up and when food prices are going down. Many of the consumer advocates have much initial misunderstanding about cooperatives and a tendency to view them as "just another business." In addition there is evidence that some of the so called "public interest" groups have been "used" as front organizations for processor interests.

The third broad category of sources of attacks on cooperatives are found in agencies of government itself. Often times these are stimulated by self generated antagonism found by folks in the ranks of the Justice Department and Federal Trade Commission. But they have been given a great deal of stimulation by the deregulation craze in recent months. There has been band wagon affect whereby each government agency tries to outdo the other in terms of its attacks and its scrutiny on cooperative activities. These organizations are typically staffed by young lawyers and economists who are anxious to make a name for themselves and who sometimes appear to be more interested in a trial by press than actual court activity.

Combined, these three groups present a formidable challenge to farmers and their cooperatives in the years ahead.

Nature of the Challenge

I think it is important to identify for our own edification exactly what these sources of attacks on cooperatives are saying. I would like to enumerate these and then discuss some of the legal-economic issues that we will be dealing with. First these sources are suggesting that cooperatives -- generalize as a group -- may not be acting in the public interest. Secondly they are advocating that the Capper-Volstead Act should be modified. They would do this as follows:

--They would like to define explicitly who is a producer.

--They would prefer to transfer the Secretary of Agriculture's Section 2 responsibility for enforcing Undue Price Enhancement oversight to other agencies of the government such as the FTC and the Department of Justice.

--They would like to see large cooperatives subject to continuous FTC and Justice surveillance. This is evidenced by the new vigor found in many court tests that are presently taking place.

--They would like the USDA to certify Capper-Volstead cooperatives. This certification would include such features of organization as voting, member control, member finance and membership.

--Marketing agency-in-common arrangements, such as the standby pool, would be legislated out of existence through amendment to the Capper-Volstead Act.

--Cooperatives would be limited in growth through merger by certain threshold or market share maximums.

Thirdly they are saying "they found evidence that the existing structure of regulations imposes substantial cost on society and on the consumer" and that they were unable to find evidence of benefits sufficient to justify these costs. These comments are specifically oriented at the marketing order program and to dairy market orders in particular. These groups want to substantially alter or eliminate them.

Finally, they are saying that many areas of intercooperative dealings should be subject to Section 7 of the Clayton Act and that the FTC and Justice should force issues for purposes of determining the lattitude that cooperatives have under existing laws and exemptions.

These events call for an introspective analysis by cooperatives of the issues facing them so that cooperatives can get their house in order and ultimately develop an offensive effort in their best interests. In terms of getting cooperatives house in order, it is necessary to consider the issues identified by cooperative critics, and possible steps that can be taken to rectify the situation and to reduce criticism currently leveled at cooperatives. We can identify these issues as follows:

The first issue is the charge of abuse of member control in cooperatives. This was first brought to light in a publication by the Agribusiness Accountability Project entitled "Who's Minding the Cooperative." The growth of cooperatives, it is suggested, through diversification and their use of subsidiary operations and certain types of "quasi cooperative" joint venture arrangements with noncooperative firms have each led to an organizational structure that has lessened members influence and control over their organizations. There is also a strong feeling that cooperatives have become dominated by the influence of highly trained and sophisticated managers and other technocrats such as corporate planners.

In responding to this set of charges regarding members control, cooperatives are admonished to getting back to some of the "basics" of what cooperatives are all about. First of all we have to acknowledge that cooperatives are and continue to be essentially a boot strap type of operation in which members pull themselves up economically and socially through the use of the cooperative form of business organization. We likewise have to acknowledge that many large scale cooperatives are in need of social engineering to assure member control, feelings of participation and members ability to express their grievances and needs within their cooperatives. New efforts are required to address this particular problem not only by the Farmer Cooperative Service and our Land Grant Universities but also by cooperatives themselves. We have to get farmers out in front of our organizations not only in emphasis internally, as well as publicly, but likewise in terms of <u>leadership</u>. We have to assure that farm members are seated on intracooperative regional boards of directors.

In discussing our cooperative organizations we can point to strength in the local units of organization <u>and</u> talk about "our" cooperative rather than "company policy" or "corporate policy". In other words I think we have to stop attempting to continually mold our cooperatives in the corporate image.

A second charge launched by cooperative critics is the <u>existence of monopolistic practices by cooperatives</u>. These charges primarily stem from the Federal Trade Commission and the Department of Justice and can be viewed more readily in the form of court tests against the three large dairy cooperatives. Also the National Broiler Marketing Association case is an attempt by the Justice Department, albeit a misdirected one, to determine who is a producer eligible for membership in a cooperative. In the Central California Lettuce case the Federal Trade Commission has raised some questions concerning whether pricing is a legitimate marketing function undertaken by a cooperative. As another example, the National Consumers Congress has filed a petition with the Secretary of Agriculture alleging that dairy cooperatives' over-order premiums are evidence of undue price enhancement.

It is quite clear that cooperatives enjoy no special privileges regarding predatory activities under existing laws. Our solution with dealing with this problem is to be sure that cooperatives utilize their power judiciously, or as Secretary Butz recently stated to "live right and get credit for it." More important it seems to me we have to emphasize the way in which cooperatives enhance competition and thereby serve as a balance wheel and a check point on the evils of the capitalistic system. We need to cite examples such as in 1974 when fertilizer was in short supply and when proprietary firms were diverting domestic fertilizer resources to international markets while our cooperatives were serving farmer members and leading the call for expanded production of basic commodities. Net savings of \$35.00 to \$51.00 per ton on fertilizer were realized in behalf of cooperative members that year.

Similarly, we need to point out that net savings generated by our marketing associations are returned to farmers and translated into effective price signals to which producers respond in making their production decisions.

It is this basic feature of cooperatives which I regard as being truly in the public interest that is not clearly understood by the public at large. In a word, farm production is not as yet an industrialized style production process in which production control is centralized. The basic difference between agriculture and industry is in the point at which production decisions rest. Since production decisions currently rest in the hands of many individual farm operators, we need to point out the basic way that these production decisions are made in response to market price signals. The public simply doesn't understand this difference and basic fact of life.

A third broad issue that critics are launching against cooperatives concerns corporate membership in cooperatives. Essentially this charge concerns the question "can public stock corporations collude to set prices under the Capper-Volstead Act?" Recently the Federal Trade Commission has recommended to Congress that we outlaw public stock corporation membership in Capper-Volstead cooperatives and that this be done through an amendment to the Capper-Volstead Act.

Obviously handling this particular problem is troublesome for the cooperatives and their leaders. There is a tremendous fear of opening the Capper-Volstead Act to amendments because of the relative power of agribusiness firms and other market participants in the legislative process. This fear extends to the fact that the Capper-Volstead Act could be so modified to render itself relatively useless in terms of assisting farmers in the future. If this is the case, farmers and cooperative leaders must consider alternative ways of accomplishing this same objective in limiting corporate involvement in our cooperative organizations. This can be done through initiatives of cooperative leaders themselves at cleaning house regarding membership policy in their respective organizations. At the same time it might be possible to encourage the USDA to involve itself in a certification process which identifies organizations that may be considered legitimate farmer cooperatives under the law. And finally, it may be possible for cooperatives to encourage or initiate court tests with respect to interpreting who is a producer under the Capper-Volstead Act.

A fourth broad issue concerning cooperatives is focused in the finance area and deals essentially with finance by current owner users of the organizations. Clearly farmers must capitalize their organizations to meet the expanded credit needs of existing cooperatives to expand into more intensive cooperative efforts and new cooperative ventures. In discussing the area of cooperative finance, one of the biggest challenges to cooperatives is to keep ownership in the hands of current users. One of our chief sources of Congressional mail is from Congressmen who receive letters from constituents who are concerned about cooperative paper which they have recently inherited as a part of some estate settlement or what have you. We in cooperatives must see that our accounts are kept on a healthy basis, are kept rotating and kept current so that we are not susceptible to charges of financial negligence.

SUMMARY

In summary, cooperatives are a distinct and distinctive form of organizational activity. We in cooperative circles have been attempting to emulate a "corporate model" for far too long. We need to maximize instead the uniqueness of our cooperative form of business organization.

In answering the question do dairy cooperatives have a role in the future, the answer is indeed yes they do have a role and one that is of increasing importance. But to see that that role is fulfilled we need to educate our various publics of the important features of cooperatives including members, employees, the public at large, Congress and the executive branch. In the future we need to emphasize the uniqueness of cooperatives. Let's get back to the basics.

Some Problems and Alternatives of Federal Milk Marketing Orders

H. L. Forest
Director of Dairy Division
U.S.D.A.

I appreciate the invitation to be a participant at the 31st Midwest Milk Marketing Conference and welcome the opportunity to discuss "Some Problems and Alternatives of Federal Milk Marketing Orders."

One of the major problems facing Federal Milk Marketing Orders are the recent rash of statements and reports questioning the desirability of the program.

Federal Milk Marketing Orders are drawing increasing attention as top officials in a number of government agencies look for the causes of inflation and high food prices and some consumer activist organizations look for the culprits. Milk Orders are coming in for more than their share of the blame.

Questions are being raised as to whether Federal Milk Orders are in the public interest.

The President on October 8, 1974, indicated that Marketing Orders were being reviewed to eliminate or modify those responsible for inflated prices.

The 1975 Economic Report of the President contained the following statement: "Current Problems with Dairy Programs Illustrate the Pitfalls of Heavy Government Involvement. State and Federal Marketing Order Programs Institutionalize a Higher Price for Milk for Fluid Consumption than for Processing and they Restrict the Free Movement of Raw Milk--Consumers Eventually Pay Extra for Milk."

An Assistant Attorney General characterized Milk Orders as producer-dominated mechanisms designed to maintain higher than competitive prices with resulting harm to consumers and has questioned the desirability of classified pricing of milk.

The Federal Trade Commission issued a staff report in September 1975 which was critical of Market Orders. The report concluded: "Antitrust Enforcement Against Anticompetitive Activities By Cooperatives is One Road to Improving Economic Performance in Selected Agricultural Markets. However, Marketing Orders With Their Governmental Sanctions Appear to be Even More Powerful Than Private Market Power, and, Therefore, More Dangerous."

The increasing interest of consumer organizations in Marketing Orders and Cooperatives was brought into sharp focus last December when a consumer organization, the Community Nutrition Institute, sponsored a conference on "Milk Prices and the Market System." The Conference was essentially a forum for criticizing Milk Orders and Cooperatives. As one trade paper reported--"Speakers From the Federal Trade Commission, The Department of Justice and the Council on Wage and Price Stability Took Turns in Attacking Dairy Cooperatives and Marketing Orders."

One thing you should all be aware of is that conferences such as these tend to place both Market Orders and Cooperatives in a defensive position.

What are the problems as viewed by these agencies?

--Milk Marketing Orders have resulted in higher prices to consumers and imposed significant social costs on society. Estimates of the increase in the cost of milk to consumers ranged as high as one billion dollars per year.

--The bargaining power of cooperatives has increased enormously, Milk Orders undergird the bargaining power of Cooperatives, and Cooperatives have used this bargaining power to enhance prices unduly.

What Are The Alternatives As Viewed By These Agencies?

There is little doubt in my mind that there is a concerted effort being made to get the Congress to amend or repeal the law authorizing Milk Orders and to amend the Capper-Volstead Act. This view stems, in part, from the fact that each agency report liberally quoted from and reinforced each other and reached the mutually compatible conclusion about the inordinate costs added to consumers' milk bills by Milk Orders and large Cooperatives.

How do you explain why the results of the FTC, Justice Department and Council on Wage and Price Stability Studies differ from so many well-accepted studies that validate the Federal Milk Order Program as a continuous success story of a governmental program operating in a very complex field.

The criticisms leveled at milk orders by economists from these agencies reflect, in part, I think, a lack of understanding of the functions Milk Orders perform, or the particular characteristics of milk marketing that create the unique problems the Orders are designed to deal with.

What do I mean by understanding the problems involved in milk marketing and the functions of Milk Orders including the use of classified pricing? The major problem in milk marketing and the one from which many of the other problems emanate is milk's inherent instability associated with its perishability and sharp daily, seasonal, and cyclical variation in supply relative to demand.

Problems of milk marketing do not appear to be confined to certain areas or even to certain countries. It is not entirely by chance that milk is the only agricultural commodity for which prices are regulated by many states and by the Federal Government in the United States, or that Government milk marketing and pricing schemes have been instituted by the Governments of every major milk producing country.

The system of classified pricing was developed long before Government involvement as an effective means of settling disputes between milk dealers and milk producers. In unregulated fluid milk markets, producers have little assurance of a market for their milk at a fair price or even at any price when dealers have milk offered to them in excess of what they need for fluid use. Only by offering that excess milk at a price so that the dealer can manufacture it and sell the products in the open market can producers get any assurance of regular markets for their milk. On the other hand, a processor who desires to have a supply of milk for ice cream, cheese, or a butter and powder operation in conjunction with his fluid milk business has to have a supply of milk at a price which would allow him to make those products and compete for customers who can buy such products on the open market from unregulated sources.

Let me also briefly review the pricing mechanism under Federal Milk Orders. Very early in the history of milk regulation a serious dichotomy arose among the policymakers with respect to the kind of prices that would or could be established by milk regulation. One group maintained that the only effective way of increasing dairy farmers' income was to establish a higher than competitive price and then control production commensurate with the price established. A second group felt that an estimated competitive price with a correction of the imbalance of bargaining power between producers and handlers would result in an improvement in farmers' income. No production control was ever established in the dairy industry for many reasons. The competitive price group finally won out and that became the policy which has been followed in the administration of the Milk Order Program.

It is understandable that some economists and others question the current need for a Government program that originated in the depression years. Certainly the industry has changed and farmers are better organized than they were in the 30's. Classified pricing, however, is not a development of the depression but was a pricing system that was voluntarily worked out between farmers and dealers many years before. And the unique characteristics of milk that made classified pricing essential in the early part of the century still exist today. Milk is still a perishable commodity that must be marketed daily, irrespective of processors' fluid needs; and reserve supplies of fluid milk have no better market than in manufactured products which are in direct competition with products made from manufacturing grade milk. In fact, one of the important marketing improvements of the 50's and 60's would have been far more difficult to implement in an orderly fashion if it had not been for classified pricing and it has underscored the role that classified pricing plays in an orderly and efficient marketing system. I refer to the practice of handlers to process, package and deliver milk to stores on only 4 or 5 days a week, leaving 2 or 3 days of production to seek outlets in other than in fluid markets.

Another weakness of the studies by the Federal Trade Commission's, Justice Department's, and Council on Wage and Price Stability's economists is that they assume a highly theoretical setting. That is, the conclusion that classified pricing causes consumer milk prices to be inflated is based on a comparison of actual milk prices with what milk prices the economists conclude would have been if what they call pure or atomistic competition existed.

In my view, no meaningful analysis is made of Milk Orders in these studies. Nothing is said about the supplies that prices under the program have generated relative to demand. Nothing is said with respect to other indicators which would provide some insight as to the appropriateness of the level of prices established such as (1) entry of new producers into dairying, (2) the relative well-being of dairy farmers in terms of measures which might give some indication as to the level of milk prices relative to costs, and (3) changes in the price of milk relative to other foods.

No in-depth analysis is made of some basic issues such as the size of the Class I differential, pooling procedures, the geographic patterns of milk prices, or the relationship between Price Supports and Milk Orders. No mention is made of the many nonquantifiable contributions made to dairy farmers and the public by Milk Orders.

Even though we can enumerate many weaknesses and defects in the reports critical of Orders, the attitudes being expressed cannot be taken lightly and point to the need for evaluation of the criticisms being made.

In this regard, we now have a study underway at the University of Wisconsin on "The Social Costs and Benefits of Federal Regulation of Milk Markets." This study is not being undertaken in a highly theoretical setting, but will reach its findings after taking into account the many and meaningful considerations which the other studies overlooked.

Our Economic Research Service also has a study underway that will give high priority to an analysis of Class I prices. We have suggested that their study also include (1) an evaluation of whether the conditions that led to the development of classified pricing still exist today, and (2) an analysis of how milk might be marketed today in the absence of classified pricing and the likely consequences. Our many years of experience in the practical aspects of milk marketing provide us with a good insight as to what the results will show, but we feel much is to be gained by an independent study.

The theme of your program this year is "Confrontation or Cooperation." My approach for dealing with the criticisms leveled at the Order Program is cooperation through education.

An obvious need exists for a better understanding, generally, of the positive aspects of the Federal Milk Order Program. Someone has to present the other side of the story and those of you assembled here today represent the nucleus for such an undertaking. Equally important, if you feel that Federal Milk Orders provide for more orderly milk marketing, you have a responsibility to point out the positive aspects of the program.

One way of approaching this task is to point out and emphasize the mutuality of interest which exists between dairy farmers and consumers.

--Consumers have a stake in prices to producers which provide producers a fair return on investment, and assure consumers adequate supplies of milk. This is what Milk Orders are designed to do and this is what the program has accomplished over a period of nearly 40 years.

--The extreme price instability that most informed persons think would be associated with a completely free market for milk threatens adequate year-round supplies and creates a pattern of extremely low prices followed by periods of unduly high prices.

--Milk Orders have provided solutions to the problems of "cutting off" producers during periods of seasonally high production or problems associated with equitable sharing of the burden of seasonal and day-to-day reserves. These problems have resulted in disorder, bitterness and even milk strikes in unregulated markets.

No one can say with certainty as to how the Milk Marketing System would operate in the absence of Orders. If economic forces without Government regulations can satisfactorily, and without cost to the public, result in an efficient marketing system then they should be allowed to do so. But if the free run of those forces is costing the public and causing disorder, then it would seem only common sense to provide a system which results in efficiency without disorder. This has been achieved under the Milk Order System because the program has shown a remarkable ability to adapt itself to change. Part of this ability can be ascribed to the considerable responsibility which has been put upon the industry and other interested parties to propose and support changes at public hearings. The program has undergone numerous and substantial changes over the years to meet changes that have taken place in the marketing of milk.

Changes now taking place are creating stresses and strains which will require changes in the Order Program to keep it attuned to changes taking place in the Milk Marketing System.

The widening areas of procurement and distribution, the growth of regional cooperatives and the conversion to one grade of milk are creating pressures for:

--Developing new movers of class prices;

--Developing new methods of pooling; and

--Additional mergers and consolidations of Orders.

Some additional specific problems and issures are:

--Widespread and sizeable over-order prices raise the question of just what the function of order minimum prices is.

--Transportation costs have escalated, yet these higher costs have not been reflected in the location differentials in Orders.

--Under present procedures, Class I prices are based upon the Minnesota-Wisconsin price for the second preceding month. This lag creates problems when the M-W is increasing by sizeable amounts from month to month.

Advance pricing on manufactured dairy products, payments to cooperatives, the cost of balancing market supplies to handlers' needs, and integration by cooperatives into fluid milk distribution are still other developments and issues that need review and study.

Now that I have laid out for you a host of economic problems facing the Milk Order Program, how do we deal with them? What are the alternatives? What needs to be done? I pose questions about these problems rather than answers to signify the importance I attach to Milk Marketing Conferences.

I have been participating in Milk Marketing Conferences such as this one for nearly 40 years. I welcome the opportunity to do so. These conferences contribute much to the industry they serve and have the potential to do even more.

To reach their potential, Milk Marketing Conferences must be true to their purposes. I would like to share with you some thoughts I have on the purposes of these conferences based on my observations and experiences over the years.

Milk Marketing Conferences offer many practical benefits.

--They provide an ideal forum in which all of us in many facets of the dairy industry can present our views.

--The information they generate strengthens and encourages the industry to make needed changes in marketing arrangements.

--They cement and augment ties of the industry with the Land Grant Colleges.

--Milk Marketing Conferences lead to the creation of better understanding of diverse points of view and hence facilitate the solution of marketing problems.

I would not be candid with you, however, if I did not say that I think these conferences have strayed somewhat from their original purposes. We are spending more and more time talking about what we have done instead of asking ourselves what needs to be done. Let me hasten to add that I am not saying that these conferences should be totally void of recitations on past accomplishments, but I believe the emphasis should be on the problems the industry is now facing and the work needed to deal with them.

In opening the 1969 conference, John Roberts expressed what I have in mind. He said, "The tradition of the Midwest Conference has been an open forum on contemporary milk marketing problems." He also pointed out that the Midwest Milk Marketing Conference was organized by interested leaders concerned with milk marketing problems and one of the objectives set forth in the bylaws is to suggest and encourage educational programs and research to assist in the solution of problems facing the industry.

If research is to have a practical effect, it must be focussed on areas where problems are the most pressing. It is here that conferences like this should play an important role. They should set priorities. They should clearly define our problems. They should make the industry's problems understandable to researchers and insist that researchers' alternative solutions be understandable to the industry. This mutual understanding is essential.

Over the years, those responsible for administering the Federal Milk Order Program have fostered and encouraged independent study and appraisal of issues and alternative solutions by economists and others with expertise in the dairy field as a prerequisite to any hearing on important economic issues which require new and untested solutions. Your continuing assistance in the resolution of the vexing economic problems is necessary if the Milk Order Program is to remain adaptive to change.

I would like to conclude with several comments on the attitudes and the framework with respect to approaching solutions to these problems.

We are in a much different kind of economic and political world than we have ever experienced before. Whether consumers are right or wrong and whether we like it or not, consumers are concerned and upset over the increase in food prices including milk and dairy products. They have and are going to continue to raise questions about any program that they think or are told is resulting in an increase in prices they pay for food. And if this program is the result of Government intervention, they are going to be even more critical. Cooperatives and dairy farmers do not have an unquestionable or constitutional right to the many privileges and exemptions and programs that Congress has granted them. These grants have been made only because Congress was convinced that the public would be benefitted and they are going to continue only as long as that is so. More than ever before, every decision by a Cooperative and every decision that we make with respect to Milk Orders is going to be reviewed from that point of view. With each decision we make, we must ask ourselves not only whether it is good for dairy farmers alone, but is it good for the industry and good for the public. I do not say these things from any defensive attitude. I firmly believe and have said so publicly that what we have done in the dairy field both through the Cooperatives and through the Milk Order Program should be used as a model for other commodities. We have built a vast store of public goodwill for the dairy industry and dairy farmers. But, we cannot afford to have that goodwill eroded--rather we should make every effort to build on it.

The Morality Question

C. William Swank
Executive Vice President
Ohio Farm Bureau Federation, Inc.

It may surprise you to find that I will not deal with the recent problems leveled against certain of the large cooperatives, their employees, or Boards, nor will I deal with the current wave of concern about market orders, over-order prices, so-called monopoly concentration of dairy cooperatives, or even the question of who is gouging whom as far as consumers are concerned. Most of these questions are well handled in the rest of your program.

Even while trying to face and solve some very difficult questions within our industry and our economy as agricultural producers, we are moving into the face of a much larger morality question---that of a global concern about people's right to food, about developing nations' demands, and the transfer of income that must accompany any moves toward a more defendable moral situation.

Idealistically we might agree that everyone who exists deserves the right to food. Obviously, everyone existing has received food, or else they don't exist very long. The new concept on the lips of church leaders, developing nations' leaders, domestic program leaders, is that all must have an adequate diet, not just food, if we are to resolve into a peaceful world with justice and equity for all.

Evidence of these pressures is all around us. The Academy for Contemporary Problems is just finishing a study on Food and Morality, in which I was privileged to participate. The National Council of Churches and many denominations have task forces at work. The Kettering Foundation has funded an organization for a Just World Order, which lists as its objective that by 1990 at least four premises for justice be satisfied. They are: A world at peace and basically disarmed; Social justice for all; Economic well-being for all; and An ecological balance throughout the globe.

The recent Food Conference in Rome found the United States giving a positive response to many demands from developing countries that food reserves be established and food transfers be made from areas of adequacy to areas of inadequacy. The United Nations continues to provide a forum for demands from developing countries, and without the veto resting in the hands of the few super powers, one could easily conclude that resolutions for income transfers would already have been passed by the delegate body.

If one takes the time to struggle with the moral question, it cannot easily be shrugged off. No longer can we say with impunity that countries must control their population before food aid is given. No longer can we say that if countries adopted technology, as we have in the United States, they would not have a problem. We know better. No longer can we pretend that malnutrition is simply a lack-of-luxury situation, since we now know that adequate protein for pregnant women and children under six determines whether or not a child has a healthy mind, as well as a healthy body. And finally, no longer can we smugly portray that the United States has the one commanding resource that makes it superior to all other countries; which is having plenty of food for ourselves and some for negotiating with others. We now find that the OPEC countries have exactly the same situation, except their resource is energy. We are suddenly interdependent again, from an economic sense, if not a moral one.

In the next decade or so many decisions will be made with moral overtones out-weighing economic or practical ones, and many will be to the detriment of the economic well-being of the U.S. citizen. The milk industry may be involved in all of this because as a nation prepares to share its resources with others, even at a sacrifice to its people as a nation, those people within the nation will hope to get by with as little sacrifice, personally, as possible. It's the American way. Thus agriculture again, even while strategically able to make the greatest contribution, will be under the greatest duress from a point of equity, and agricultural producers must defend themselves mightily against being ripped off by a "do good" public

New concepts must be discussed and understood. We now talk about the triage theory of determing allocation of resources. We also talk about the lifeboat theory, as well as the populist theory. We talk about taking the $300 billion spent worldwide for armament and reducing that to $30 billion in a matter of years, with the saving being given over to morally defendable reassessment programs. We must deal with the concept that one moral philosophy calls the "Brazen Rule" (as opposed to the Golden Rule), which says in essence it is not morally wrong to not feed someone who is starving, if you know that they would not feed you if you were starving and they were well off. We immediately begin to play the games of "what if." Would India feed us if our positions were reversed? Will the OPEC nations be morally responsible, or selfish and vindictive? How will moral decisions be made, and by whom? And since we have not made total progress since the birth of Christ some 2,000 years ago, can we really expect equity and justice in a single decade? Furthermore, even with redistribution of wealth and/or food, will it simply be a matter of time until we have inequity because some people or groups are either more skillful, more energetic, or clever, so that the process starts again? And does the system of democracy lend itself to dealing with the total question of morality? Of the five largest nations in the world today only one is a democracy---the other four are ruled by a strong dictatorial or military hand.

Morality questions can no longer be ignored because communications has made us "one world" information-wise. No one proposes that we lose all cultural differences, nor that we tear down the rich to bring up the poor, nor that population growth be contingent upon economic development. In fact, no one proposes answers acceptable to the people who have. Mostly we have the question of morality without any acceptable answers at all.

Major Public Policy Questions Facing Dairymen

H. A. Hatfield
Assistant Director Commodity Activities
American Farm Bureau Federation

The assigned topic is an intriguing one and I am assuming that whoever chose it desired that emphasis be placed upon the word "public". If so, the task at hand boils down to the selection of a few policy questions that can be handled within the time frame for this presentation.

I can not name a single major public policy question that does not affect dairymen. The pace of local, state, and federal governments -- often goaded by consumer interests -- has quickened so rapidly in so many areas that there are few, if any, producers who have not experienced the fangs of a policy with public implications, all the way from increased taxes to safety requirements to costly Environmental Protection Agency (EPA) mandates. Perhaps it would be appropriate if the topic of this presentation were modified to read "Some Major Policy Questions Facing Dairymen."

I suppose that if only one point is to be remembered from my comments it is that most of what we do in the production and marketing of milk has become the subject of public policy. Whether we like it or not, it is within this framework that we must operate in tomorrow's market.

Some of the subjects that I will allude to are listed on the Conference program. My comments, however, will largely be limited to the public policy aspects rather than an analysis of the subject.

Ten areas have been selected for discussion. These are:

* Environmental Protection
* Safety of Food Supply
* Ecological Regulations
* Milk Pricing
* Marketing Orders
* Cooperatives
* Consumer Representation
* Trade Negotiations
* Exports
* Food Power

Your list may include other subjects but these ten should suffice for a starter. No attempt has been made to position these areas in the sequence of their importance.

ENVIRONMENTAL PROTECTION

How can the environment best be protected without an adverse effect on dairymen? This is a public policy question that is going to be with us for some time.

Here we are dealing with a governmental agency -- not Congress. Congress has vested EPA with all of the necessary authority. In fact, so much so that legislation is now before Congress to curb some of EPA's power. But action in this area will not eliminate the thrust for environmental protection.

Probably the EPA activity that you have heard the most about is water quality. Its authority dates back to the Federal Clean Water Act of 1972 -- better known as "Thou Shalt Not Pollute." Under this law, which Congress passed over the President's veto, a new concept was established.

Under the former Act, standards were required which would do what was necessary to protect the quality of the water as it goes into a stream, lake, or ocean. Under the new Act, the point of impact of the regulation is at the discharge point. The theory of this new concept is that when all persons discharging are in compliance, the total quality of water will be improved.

A point source of discharge is defined as any run-off that eventually goes into "navigable" water. Some water from most farms is returned eventually to "navigable" water. So, for all practical purposes, this definition applies to all dairymen.

Without going into a discussion of the current regulations, it should suffice for the purpose of this presentation to emphasize that permits should not be confused with exclusion from regulation -- according to the law every pollutant is unlawful.

Shifting to another aspect of environmental protection, dairymen have a vital stake in the "energy crisis" facing this nation. Current fuel prices should not detract us from the significance of the issue.

The United States is becoming increasingly dependent on foreign supplies of oil -- our imports from the turbulent Mideast have tripled since 1973. This is happening as our energy policies -- or lack of a sound long-run energy policy -- and environmental laws are slowing, discouraging, and in some instances, halting domestic production, offshore drilling, and the development of new energy sources.

The significance of this public policy question to our nation's farmers is paramount to the production of food and fiber for tomorrow's market.

SAFETY OF FOOD SUPPLY

What should be the role of government in ensuring a safe-wholesome food supply? This area of public concern has touched dairymen from several directions. To name a few -- pesticides, treatments for mastitis, and antibiotic and drug residues in milk, milk products and cows sold for slaughter.

I see no let up in this public policy sector. Dairymen, however, may take some comfort in knowing that they are not alone. Just last month, for example, FDA banned Red Dye No. 2, a food coloring, and Red Dye No. 40 probably will be next.

With increasing public attention being devoted to consumer protection, it is essential that:

(a) Government decisions be based on full and accurate information;

(b) Adequate time be provided for the development of proper regulations and procedures;

(c) The Delaney amendment to the Federal Food, Drug and Costmetic Act be modified to permit establishment of safe tolerances for chemical residues in all foods; and

(d) Efforts be increased to inform the public of the need for pesticides and antibiotics for the efficient modern-day production of high quality products at reasonable consumer prices.

ECOLOGICAL REGULATIONS

How can dairymen produce milk if they must operate with no adverse odors from handling manure or loud noises from farm machinery? Public policy actions in these areas will continue to mount as our society becomes more urbanized. It is not a question of rights based on who was there first -- the farmer or the urban dweller.

Agricultural practices, by their nature, deal with materials that are not always pleasant in odor. Ecological regulations, whether by air quality standards, water standards, or visual standards, should recognize the essential nature of efficient utilization of organic matter, pesticides, and fertilizer as a basic and natural part of agricultural production. Such operations should be exempt from environmental impact statements. Further, I would suggest that dairymen become more active locally in devising adequate zoning and land use regulations. This approach to an odor problem would appear to be more feasible in the long-run than fighting the sniffers.

MILK PRICING

Is the retail price for milk too high? Why are milk prices so volatile? These questions present an interesting mix. Consumers and some dairymen are in agreement on the question that milk prices have fluctuated too much in recent years. The consumer's solution to the problem is price stability -- a solution that is being echoed by some producers.

Let's think for ourselves lest we be caught in the trap. Webster defines stability as "stable, stationary, not moving." I am certain that dairymen do not want a "stable" price, especially in an inflationary period.

Milk pricing has been in the public domain for decades and based on the tempo of current public activities in this area, it does not appear likely that a public exit is near.

The recent price support announcement is a case-in-point. One of the major wire services carried the announcement as an increase of 3.6 cents per gallon to consumers. The next morning, March 4, the Chicago Tribune carried a prominently displayed front page article titled "Retail costs to rise; U.S. plans 5.4% increase in dairy supports."

Here we see a firming of another approach to the public's interest in milk pricing -- conversion of the price per hundredweight to one that consumers readily understand. This is the first time that I can recall that I have had to wait for a copy of the USDA release to see what the announced support price is per hundredweight.

MARKETING ORDERS

Do federal milk marketing orders enhance consumer prices? Should the federal order minimum producer price be the maximum price? Are federal marketing orders in the consumer's interest? Does success in bargaining for a return above the federal order minimum imply that a monopoly exists in a particular market? These and many other questions have become matters of public policy confronting dairymen.

Federal milk marketing orders serve a useful purpose. The orders are not just a tool for dairymen -- handlers, producers, and consumers all derive some value from the program. But, regardless of the merits of such a program, federal orders will remain in the forefront of public policy debate.

COOPERATIVES

"Dairy cooperatives have too much power. The antitrust exemptions provided cooperatives in the Capper-Volstead Act should be narrowed. Large cooperatives should be broken into smaller units." How do we counter such attacks?

Of the issues that I have discussed, it is crystal clear that the cooperative question has a front row seat in the public policy arena.

Before we can effectively counter any of the attacks on cooperatives and the right to bargain we must first have a clear understanding of the issue. This, former Deputy Assistant Attorney General Keith I. Clearwaters has done:

> "...changes in the structure of cooperatives, particularly in today's context of rising food prices, suggest the need for Congressional reevaluation of antitrust immunity for cooperatives to determine, among other things, the degree to which the activities of cooperatives enhance food prices..."

The issue is rising food prices. Some call it a cheap food philosophy. In this era of inflation, apparently it was decided that a finger had to be pointed at someone. That someone is the cooperative.

We must also understand the opponent's strategy -- often it is shrewd, dangerous, and unfortunatley, some farmers have fallen into the spider's web. From their bleeding hearts some of the opponents proclaim "we are not against dairymen, we are against cooperatives." What a shrewd tactic to divide agriculture; to pit a dairyman against his cooperative; all with the idea of achieving lower retail milk prices.

We must be alert to legal challenges adversely affecting cooperatives and not sit on the sideline. A recent FTC action, for example, concerning a California lettuce cooperative has serious implications for American Agriculture. The FTC administrative law judge's decision, in effect, stipulated that the Capper-Volstead

Act covers only handling cooperatives -- not bargaining cooperatives. Imagine what an impact a decision of this nature, if sustained, would have on the U.S. dairy industry.

Because of these concerns, the American Farm Bureau filed a motion to intervene as "friend of the court" in the FTC proceeding for the purpose of explaining its position on the cooperative exemption. I am pleased to report that the first of three cases against the California cooperative has resulted in an opinion favorable to cooperatives. This action can be likened to a small breath of fresh air. The public interest in cooperatives, however, is likely to remain vigorous, at least until after the elections this fall. In the meantime, all attempts to repeal or weaken the Capper-Volstead Act should be vigorously opposed.

CONSUMER REPRESENTATION

Should consumers serve on boards that administer programs financed by producers? There is a growing school-of-thought in Washington, D.C. that consumers should have such a voice on boards authorized by Congress.

To sharpen our focus on this timely issue, let's review a current legislative matter -- the proposed beef checkoff bill to raise funds for beef promotion. Carol Tucker Foreman, Executive Director, Consumer Federation of America has said:

* "Some cattle producers are outraged because consumers either opposed the legislation or sought representation on the proposed Beef Board.
* "Perhaps those cattlemen do not understand our form of government and economic system. If the Beef Board were solely an industry promotion, with no government involvement, consumers could and would stay out.

* "However, the industry has asked that their program be given the force of law. The Beef Board is, therefore, a public, not a private program. It should therefore, have public representation.

* "The costs of the Beef Board assessment will, whenever possible, be passed on to consumers. This is another reason why consumers should have some members on the Beef Board."

There are some in agriculture who are willing to accept consumer representation on promotion boards. There are others who have likened such representation to the introduction of termites in a new house. Most producers hold the view that only those who contribute monies to the respective programs should be eligible to serve on boards which administer such programs.

From the public policy aspect, are we viewing the development of a new dimension in agricultural legislation? Looking back, many of the promotion decisions that have been made by the dairy industry appear quite sound.

TRADE NEGOTIATIONS

Public policy questions facing dairymen are not restricted to the domestic scene -- international matters are playing an increasing role.

How should agriculture be treated at the trade negotiations underway in Geneva, Switzerland? Should agricultural trade matters be considered separately from industrial items? How much influence will the State Department, for example, have on the U.S. negotiators? These are just three public policy questions facing dairymen in this area.

One of the fears expressed by some dairymen is that the U.S. interest in grain exports will be pressed at the negotiating table at the expense of additional dairy imports. One agricultural commodity should not be pitted against another. Further, negotiations on trade problems in the agricultural and industrial sectors should be conducted jointly, not separately. One reason for this position is that there are more so-called trade barriers for negotiation in the industrial sector of our economy than in the agricultural sphere.

The trade talks in Geneva are being conducted within the framework of the General Agreement on Tariffs and Trade (GATT). GATT provides an important forum for the discussion of international trade problems and establishing the "rules of the game." GATT, however, has no regulatory powers. To exemplify the significance of these negotiations, Farm Bureau -- for the first time in its history -- has a staff representative at the Geneva discussions. The final decisions will be made in Washington, D.C., not Geneva; however, the Geneva talks are of utmost importance to U.S. agriculture.

EXPORTS

Should U.S. agriculture have the right to export according to the demands of the world market? Here we enter the arena of public policy with labor unions advocating embargoes on the shipment of U.S. agricultural products in the name of lower food prices solely as a gimmick to camouflage the union's real motive; that is, more jobs for the U.S. Merchant Marine. The net effect of such action is higher costs to all U.S. taxpayers.

A more recent example of public interest in agricultural exports comes from a news commentator. Dan Rather has issued a clarion call on CBS News for immediate long-range national planning to include a blueprint for limiting the sales of grain overseas. Rather quoted a weather expert who says the drought will continue for three years. On this basis, the commentator warns that there could be a drop of eight percent in the U.S. grain crop alone.

Says Rather: "Such crop losses would mean higher meat and bread prices in this country with the potential for sparking a whole new heavy round of general inflation Rather has not learned that food price levels are not the cause of inflation.

Exports represent a significant part of the total market for our agricultural production. Without going into a commodity-by-commodity analysis, the production from about one acre in three is exported. Because of this country's tremendous agricultural production and productive capacity, U.S. agriculture must export to survive. All farmers -- including dairymen -- will fare better if the U.S. maintains a high level of agricultural exports.

Viewing the export question from the national aspect, agricultural exports play a key role in the economic health of this nation. Increased commercial sales of U.S. agricultural commodities in world markets, for example, have shifted our national trade balance from a deficit to a surplus. In recent years, a large surplus in our agricultural balance of trade has more than offset the negative balance of trade in the industrial sector including the greatly increased cost of imported oil.

Embargoes, and the threat of embargoes, destroys markets. No business can long remain healthy without a market for its products. Somehow, more Americans must gain a greater appreciation of international trade. An unfettered climate for U.S. agricultural exports benefits the nation and makes it possible for consumers to continue to purchase their favorite items ranging from Volkswagons to bananas and coffee.

FOOD POWER

Another major public policy question facing dairymen -- and one that lies largely beyond the individual dairyman's control -- is whether U.S. food power should be used as a weapon in world politics.

The deployment of American food power is currently the focus of policy debate in Washington. The controversy hinges around the degree that food power should be used to promote the interests of the United States. At one extreme of the debate, a State Department official said "we have the food and to hell with the rest of the world." Then there is the moral question -- should the United States withhold food from a country in need because it has not reached an agreement with that country on another matter? What about agricultural sales to our regular customers? Will the embargo become a food power tool?

Dairymen, and all U.S. farmers, could be caught in a vise if agricultural exports become contingent upon reasons of foreign policy. Referencing the so-called emergency dairy import actions in recent years, dairymen have experienced what an arm of government with a vested interest can do to an industry. This public policy question of food power must not be taken lightly. It is comparable to playing with matches in a straw stack.

S U M M A R Y

If anyone thinks that the government is not hip deep in dairy policy matters or that the USDA decides positions on agricultural matters, the President's agricultural policy making machinery may convince them otherwise.

The President recently announced a reorganization of the Administration's agricultural policy-making machinery into one group. The Committee includes:

* Secretary of Agriculture -- Chairman
* Secretary of State
* Secretary of the Treasury
* Secretary of Commerce
* Assistant to the President for Economic Affairs
* Assistant to the President for Domestic Affairs
* Chairman of the Council of Economic Advisers
* Assistant to the President for National Security Affairs
* Director of the Office of Management and Budget
* Special Assistant to the President for Consumer Affairs
* Executive Director of the Council on International Economic Policy

The Committee will advise the President on the formulation, coordination, and implementation of all agricultural policy. The scope of the Committee will encompass both domestic and international issues.

Repeating what I said earlier, most of what we do in the production and marketing of milk has become a subject of public policy. This is a fact of life -- one that we must accept. In a historical perspective, nothing new has been added -- the Old Testament contains several references to Egypt storing grain so that the people might have food in years of poor crops.

The public's interest in agricultural matters does not infer that a dark cloud is hanging over the industry. It merely indicates that we must:

(1) Recognize the situation;

(2) Move off of the defense;

(3) Develop strategies to cope with the changing environment; and

(4) Proceed with a positive attitude.

We are a great industry. We have a nutritionally valuable product. We have a proud heritage. We serve a useful purpose. Supplying the consumer with an adequate supply of dairy products at reasonable prices is one of our goals.

Value of Milk Marketing Orders to Dairy Farmers and Consumers

Gary Hanman
Exec. Vice President & Gen. Mgr.
Mid-America Dairymen, Inc.

During the past several months, several papers and research reports have been completed that concerned themselves with the benefits and costs of dairy industry regulations in general and federal milk orders in particular. After reading those papers, I'm a little concerned as to why the program committee of this conference alloted me 30 minutes to discuss the "Value of Milk Marketing Orders to Dairy Farmers and Consumers."

As those of you who have read these papers know, the authors were able to find very little if any benefit derived from the current program. In fact, all of the good things these authors have had to say about Federal orders, the Price Support Program, and dairy cooperatives could be thoroughly covered in less than 30 minutes.

All of these studies came to the same conclusion: As a result of the two basic programs (Milk Orders and Price Supports), U.S. consumers are being charged hundereds of millions of dollars more for milk and dairy products each year than would be the case in the absence of such programs.

The authors had little difficulty in arriving at these results since they assumed the purely-competitive model was appropriate for their analyses. By comparing prices that actually existed during specified time periods with the prices attained by use of the competitive model, astronomical consumer overcharges were documented.

One author states that, "In 1960, the price producers received in sample markets averaged $4.28 per cwt. Without regulation, it would have been $3.80 or 13 percent less." He goes on and presents comparable figures for 1970 showing a 22-percent reduction in consumer milk prices would have existed in the absence of Federal orders.

Is this a reasonable conclusion? I think not. First, I do not believe the purely-competitive model provides the appropriate theoretical framework for analysis. One condition of pure competition is a large enough number of buyers and sellers so that no individual can significantly influence price through their sales or purchases. This condition is not met since a large number of buyers would not be present in many areas.

The purely-competitive model also requires perfect mobility of resources. Due to the highly-specialized equipment and labor required in dairying, this condition would not be met.

I'm confident that theoreticians could go down the list showing how the unregulated dairy industry would differ widely from the purely-competitive model. I will leave the development of that list to the theoreticians.

Second, for just a minute let's convince ourselves that the price decreases of 13 and 22 percent for 1960 and 1970 respectively would have been realized if all the conditions of the competitive model had been met. Having convinced ourselves of those two things, let's ask ourselves a couple of questions.

What would the supply response to those levels have been in the years immediately following 1960 and 1970? In turn, how would consumer prices have reacted to the substantial reduction in the total amount of milk produced? Answers to these questions will require analysis of the longerrange impact using dynamic models versus the immediate impact obtained by the static model. I believe the answers to these two questions would show that consumers would likely have paid considerably more for milk in the early 60's and early 70's than they actually paid under our current regulatory system.

There are also some basic trends in the dairy industry which I have trouble reconciling with the results of all of these papers. For example, dairy farm numbers have dropped from over one million in 1960 to somewhere between 200,000 and 250,000 currently. Milk production has been on a long-term downward trend. Only through consistant gains in output per cow through improved breeding, feeding, and management have we been able to partially offset the drop in cow numbers from 17.7 million head in 1960 to 11.1 million head at the beginning of 1976.

These trends, at least to me, do not point to a milk production industry that is wallowing in excess profits. Neither are these trends what I would expect to see in an industry accused of attracting excess resources and thus resulting in resource misallocation. When we consider that in 1974 and 1975 total domestic consumption exceeded total domestic production, the argument of inflated producer milk prices stimulating unneeded milk supplies crumbles.

These basic trends would lead us to the conclusion that if consumers are paying excess prices for milk and dairy products, these excess dollars are not flowing back to dairy farmers. What about other stages in the marketing process? Are there excess margins in the fluid milk processing industry? In mid-1975 a report titled "Price and Profit Trends in Four Food Industries" covered a study of meat packing, fluid milk processing, bread baking, and the beer industry. The smallest group of handlers (those with assets under $10 million) included in their study had after-tax profits of 1.1 percent of their sales dollar. Larger operations were even less profitable showing an after-tax margin of only 0.6 percent.

The profit picture in each of these industries was compared with (1) all manufacturing industries and (2) all food processing industries. The study showed (except for short-term variations) that these four industries were, in general, less profitable than either the average of (1) all manufacturing industries or (2) all food processing industries. The results of this study, coupled with the fact that the major national dairies have continued to de-emphasize milk processing, makes it difficult to conclude that excess profits are accruing to milk processors.

What about the prices consumers pay for milk and milk products? Are the prices of these products inflated? We've just looked at how the milk production industry has declined indicating no big profits there. The study just mentioned offers convincing evidence that fluid milk processors aren't the culprit.

The area of retail prices must now be considered to get a true picture of how consumers have been overcharged. Data published by the Bureau of Labor Statistics reveal some interesting information. Since 1967 the consumer price index has increased by 60.3 percent, all foods by 74.5 percent, dairy products by 55.1 percent, fluid milk (grocery) 51.8 percent, butter 19.7 percent, American cheese 72.3 percent, and ice cream 50.9 percent. The retail price of all dairy products has increased less than the average of all foods. With the exception of American cheese, the average retail price of all dairy products increased less than the consumer price index. Furthermore, if you care to look at the data for the years between 1967 and 1975, you'll find the same relationship has existed.

Also, milk prices have been declining in relation to average wage levels. For example, it took 12.6 minutes at average wage to earn enough to buy a half gallon of milk in 1960 compared to 10.7 minutes in 1974.

These are the basic trends and some of the basic numbers that I have trouble reconciling with the findings of studies which seek to do away with some programs which I believe have served producers and consumers well.

Of course there are changes which must be made in the Federal Order Program or any regulatory program. Procedures for changing or termination of the Federal Order Program currently exist. The record shows that through the years, numerous changes in the program have been made as marketing conditions changed. Certainly, there will continue to be changes. I would only hope that future change will be based on studies geared closer to the real world than those I have referred to.

At the same time, I'm aware that those of us who believe the current system has played a major role in stabilizing market prices, facilitated change in an orderly manner, and worked to assure consumers of an adequate milk supply at reasonable prices have a job to do. We must cause studies to be made that will demonstrate and quantify the benefits of the program. Our being slow to initiate these studies opened the door for the kinds of attacks that current programs have received.

Senator Kennedy put it well when he addressed the Conference on Milk Prices and the Market System. He said, "Those who defend the present system, therefore, must identify clearly and accurately the benefits of the system." He further stated, "The critics of the system also have a duty to identify and explain who will be harmed by regulatory reform of the present system."

For one, I believe the benefits from Federal Milk Order Programs are largely known today. First and foremost of these benefits is the stability and the orderly marketing condition that has been provided. The benefit of the stabilizing factor cannot be overestimated. Milk and its products provide a large proportion of important nutrients in our diets. Preliminary data for 1975 indicate that dairy products contributed 74.5 percent of our calcium, 34.7 percent of our phosphorus, 39.8 percent of our riboflavin, and 22 percent of our protein, as well as smaller percentages of other nutrients. Therefore, the assurance of an adequate and stable milk supply also assures U.S. consumers of a large proportion of these vital nutrients. What is the quantitative value of this assurance? It must be determined. The problem today is that no one has attempted to assign a dollar value to this benefit.

Studies attacking the current regulatory system will prompt initiation of such studies. These studies must do three basic things if they are to serve a useful purpose. They must

1. Employ models more descriptive of the real world,
2. Be conducted by interdisciplinary task forces and presented in a straightforward unbiased manner,
3. Consider long-run as well as short-run results and implications.

Once these studies are completed, their results, along with papers that have already been completed and others being worked on, will provide a better basis for formulating future courses of action.

There are other benefits aside from that of market and price stability. These are real benefits but are seldom mentioned. The Federal Milk Order system has generated the most complete and detailed set of statistical data available for any industry. These data show information on production, sales (in and out of area), producer numbers, prices, tests; and the list goes on and on. Reports are published monthly and summarized annually. Statistical information flowing from the Federal Milk Order Program has many uses.

Dairy farmers may decide to change their herd breeding program in order to genetically influence the composition of their milk in order to produce a product more nearly in line with the demand of consumers. Farmers may also change their herd freshening program to take advantage of high blend prices in the fall months when production is lowest. To the extent these efforts are successful, our seasonal production and consumption pattern will more nearly balance. This means less standby manufacturing plant capacity and thus an improvement in resource allocation.

Federal Milk Order Statistics provide processors with useful information on regional shifts in production and consumption. Such shifts may be the basis for profitably locating a plant or distribution point. Again resource allocation is improved which is in the public interest. Processors would also benefit by having up-to-date information on consumer preference for fluid milk products as shown by the sales trends developing in whole milk, low-fat milk, skim milk, and other products.

Producer cooperatives and proprietary manufacturing plants find Federal Milk Order Statistics helpful in the location of a manufacturing plant. Also, the Federal Milk Order Statistics, combined with other USDA publications, allow accurate projections to be made as to how much milk is likely to be available for manufacturing in coming months. Projections of this type are helpful to cooperatives and proprietory manufacturing plants in planning maximum usage of productive capacity. Marketing strategies in regard to inventory levels also depend on projections of this type.

Government officials find the information useful in arriving at policy decisions regarding the Order Program itself, the Price Support Program, and as a data base for economic studies.

Students and researchers at colleges and universities draw heavily on this body of data for research projects conducted at those institutions.

The provision for dairy product promotion under the Federal Milk Order Program provides benefit to both producers and consumers. Under this provision, money deducted from a dairy farmer's check (with his approval) is used for dairy product promotion through advertising, consumer and nutrition education, and research and product development.

This program helps to educate consumers of the nutritional value of milk and dairy products and therefore contributes to the nutritional wellbeing of U.S. consumers. New products developed through research funded by money flowing from the Federal Order Program continues to provide the housewife with a good selection of the products of high nutritional standards.

These are just some of the benefits of the Federal Order Program. I want to re-emphasize that the main value to producers and consumers continues to be the stability and orderly-marketing conditions that it provides.

There is no disputing that the Federal Order Program has added to stability in the Dairy industry. This was accomplished through elimination of the chaotic conditions in the early part of this century that jeopardized the public welfare.

Out of those conditions grew a system of milk regulation that has provided consumers with an adequate supply of milk at reasonable prices. Now is the time for all participants in the marketplace to analyze the merits and pitfalls of our current system. Let's document what changes are currently needed and those that will be needed in the future.

The relative costs and benefits of all these changes must be known. Studies will have to be conducted to quantify the benefits and costs of the program alternatives considered. Let's get those studies underway.

Let's objectively evaluate the results of those studies along with the ones I've referred to several times today. After this evaluation, we should have a sound basis for making decisions as to the appropriate course of action. Then let's implement those decisions systematically in order to assure maximum public welfare.

Dairy Products and World Trade

Patrick B. Healy
Secretary
National Milk Producers Federation

It is a real pleasure for me to be here with you today and to participate in this annual meeting, which has proved to be of such great importance to America's dairy industry, and particularly to the milk marketing cooperative associations which are the base of that industry.

The Mid-West Milk Marketing Conference has always addressed itself to the policies, the techniques, and the pressures which, in their total, virtually dictate trends in our industry and directions to be taken by major segments of our industry.

Again this year, you have developed a discussion agenda which exposes most of the influences which are current and which, taken all together, will set the course of action for us in the months and years to come.

The part of this agenda which is assigned to me, "Dairy Products in World Trade," is, indeed, one of the basic forces with which we must deal as we plan for our production, our marketing and our distribution program. For at the base of most of what we do in our nation's dairy economy lies our ability to limit the access which world surpluses of milk have to our domestic market.

Today, more milk is being produced in the world than can be sold at the prices which have generated its production. The Common Market holds today what approaches a million and a half metric tons of nonfat dry milk. It does not know what can be done with this powder. The United States has 200 thousand metric tons of this commodity on hand. In total in the world, there are almost 2 million metric tons of powder available. This amounts to over 4 billion pounds of a product which is an almost perfect food -- one that is easily storable, readily shippable, in concentrated form, and adaptable to an endless variety of uses. Yet, the pressures of world trade and of domestic politics, be they United States politics, Common Market politics, British Commonwealth politics or what have you, have precluded the utilization of this tremendous surplus to date.

Inventories of this magnitude develop their own pressures. Reasonably large sums of money have been expended in their accumulation. Sums so large that they bring government decisions which went into their accumulation into serious question.

The United States traditionally is not a world marketer of milk or dairy products It has, in its entire history, attempted to produce milk only in quantities sufficient to meet the demands of the domestic market. Unlike other segments of agriculture, it has not produced part, a major part, or even a fraction of its total for world commerce. Therefore, in the mad scramble of other nations to find new markets into which milk can be put, there will be very little disruption of American marketing patterns so long as -- and only so long as -- we are able to maintain our domestic market invulnerable to inroads to be made by this product.

Upon our continuing ability to preserve our domestic markets for American dairy farmers rests the continued success and even the continuation of our basic price suppo program and all that grows out of it and all that surrounds it. Because it is indeed a certainty that were we to accept foreign-produced surpluses at prices dictated by the vast holdings around the world, the price support program would collapse. We would have it no longer.

We have, therefore over the years built up a complex of legislation designed to protect the price support program and through it, the prices of American dairy farmers by limiting the amount of milk which is allowed to enter our country. The prime legislation in this area is contained in Section 22 of the Agricultural Adjustment Act. It says that whenever the operation of a domestic program is threatened by imports, the President, by proclamation, may limit those imports.

Section 22, therefore, is our first line defense against the collapse of our entire pricing structure. It is the device to which we must look. It is the device upon which we must ultimately depend.

There are additional legislative tools which can be called into play from time to time. Among these are the so-called anti-dumping law; another one, the countervailing duty law. As all of you will remember, a year ago we were able to have the countervailing law applied with great success. It, therefore, in our minds and in the minds of all of us, became extremely important. In the instance in which it was used, it was extremely important. It can never be relied upon solely, however, to protect our markets. There are too many ways in which it can be evaded. There are too many ways to hide the subsidies which trigger its application. There are too many ways to overlook, ingenious methods to invade the American market. Therefore, while upon occasion it can be an important tool and one which we must use, it can never be our first-line of defense. For this, we must always look at direct quotas established under Section 22.

In my discussions with the leadership of the European Common Market dairy industry, discussions held both in the United States and in Europe, it has become apparent that they, like we, are unhappy with the application of quotas as they now exist and as they are currently administered.

It would appear that it may be profitable both in Europe and in the United States to readjust these quotas so that they could more aptly fit the desires of Common Market milk producers and, in turn, have less effect on basic milk prices in this country.

This could be accomplished through reducing current imports to the components of those imports -- that is, we should measure the amount of milk fat and the amount of milk solids not fat which come in today in various forms; re-distribute those solids and that fat into cheeses, for example, which the Europeans want to produce and for which there is a market here at home. From our own standpoint, it appears that such an arrangement would lessen the effect of imports on domestic prices because it would not merely dump additional raw product into our processing plants of various types and thereby displace our own raw product. If table-grade cheeses produced in Europe can find a market in this country at prices required to make them available here, their impact on domestic prices would be extremely limited. Continuing exploratory conversations are taking place aimed at developing this discussion further.

While this matter is of somewhat importance in trade relations between the United States and the Common Market, its solution would not of itself find new markets for over-production in Europe. The whole world, or at least the whole dairy producing and dairy consuming world, must shortly address itself to solving this problem. One possible solution which has grown out of my conversations with the leadership of other dairy producing nations is to develop a world pool of surplus dairy product. This pool could be used to develop markets at whatever price the developing market could afford. It could also be used to supply hungry people in poverty-stricken lands and to supply them on a continuing basis. Proper development of such a famine relief program could eventually lead to market development in those countries. The pool could be operated on a cooperative basis and the proceeds divided equally among the nations which participate in the pool on the basis of their use of the pool.

There is considerable sentiment around the world in favor of such a program. And talks do continue at international dairy gatherings leading toward the adoption of this or some similar program to utilize what is currently a vast over-supply of milk.

The development of some ordered and rational utilization of these vast stocks is of extreme importance to the United States, to the markets of this country, and to the dairy farmers who supply them. For if we do not develop some means to dissipate stocks, whatever they may be, (currently they are, as we know, dry milk; but should they be fat or should they be cheese, the same perils are inherent). It is to our advantage to develop some outlet for these stocks, because if we do not, at some point pressures to put these stocks into this country cannot be withstood. A complex of world politics, world political necessity, advancing stocks in Europe, high costs of maintaining programs in this country, and alliances between the United States and other nations for other purposes can, at some time, break down the system of control which we now enjoy. We must, therefore, use the time that we have -- a time during which we can maintain control over these foreign surpluses -- to develop some ordered system for their utilization. And to this we must dedicate ourselves.

The development of some reasonable program is essential, first of all, to the dairy cooperative associations of this country because it is on them that the burden for handling surpluses in this country eventually falls. It is they that bear the tremendous costs of clearing the markets and of handling displaced milk, no matter what the cause for that displacement. Failure on our part to control imports would put the last crushing burden on the cooperatives of this nation. And in the last reading, if we are to have a healthy agriculture, and therefore an abundance of food for all Americans and some others to eat, we must protect the cooperative; we must foster its development and we must see that it grows.

The cooperative is under attack today. Its ability to exist is being attacked. Its ability to function for its members. Its tax status. Its marketing function. Its ability to recover its costs. All of these things -- they are under serious attack today.

They are being attacked by those who would destroy them but who have nothing to offer in their place.

I sometimes wonder if the student activists who created so much campus unrest in the mid '60's have not completed their graduate work or obtained their law degrees and moved on to establish other cells of destruction -- some within the government and some without. The approach is the same -- the strident cry just as loud -- and the offered solution just as lacking. We must move -- and we are moving -- to prevent the impairment -- the destruction -- of this most valuable tool of farmers.

To this end we must look to the Congress -- the broadest base of firm support for the cooperative within today's Federal structure.

The agriculturalists in the Congress understand the cooperative. They are aware of its contribution. They are prepared to defend it.

It is to the Congress that those who would destroy cooperatives must go to make some basic change.

And they must prove their case -- A far more demanding job than they have yet undertaken.

If we are to have milk in abundance, the farmer cannot be denied this access to his market.

We must, therefore, address our attention to markets as we move in to the coming months and years.

It is to the future that we must, of course, look. The future almost certainly will be a strange place. It can be a fascinating environment in which to produce milk and market it. Because in the future as producers and marketers of milk, we will be confronted by many things which we have not been able heretofore even to imagine.

We must plan, for example, for a future which will require less energy to produce, process, and market milk -- energy which will nonetheless cost more than ever before imagined in agriculture.

As all the people in the world strive to eat better, and as all the nations in the world strive to provide better diets for their people, continuously increasing demands upon our grain supply will be made from abroad. They will be made by people who want to eat the grain and by people who need the feed to produce more animal protein.

The future will, therefore, pit the American dairy farmer against the world for the available supply of these grains -- even, indeed, for the use of the grain which he produces on his own farm.

Capital input requirements, both on the farm and in the marketing structure of the future, will be tremendously greater than they are today as management attempts, as always, to substitute capital for wages in his operation.

The tyranny of technicality will be magnified many times over. It will confront us as we attempt to master the techniques of dairy production, processing, and marketing.

The control of disease, for example, in the management of larger, more intensive dairy operations, will be an ever increasingly demanding burden. The management and, indeed, even utilization of dairy wastes will be forced upon us either by regulation or by economics.

Cooperative marketing in the future will, perhaps, be even more challenging than dairy farming. The increase in input costs on the farm will make tremendous demands upon the cooperatives for the provision of milk price to meet those costs. These new and higher prices are almost certain to have some effect on demand in the market. We must, therefore, constantly update our marketing structures to deal in this new market at the new prices which will be encountered there.

At some point in our future, we are almost certain to be dealing with a single grade of milk in this country. If the market regulatory devices as we know them today exist into this future, we must then regulate all of the milk which is produced in this country. When and if this comes about, we must find a way to integrate market regulation and price support even more closely than they are now administered.

In our future of one grade of milk, all regulated and all of it gravitating toward the higher price markets, where do we, in fact, hold the reserves? How shall we pay for them? Who is responsible for accumulating them? And upon whom does the cost of their accumulation eventually fall? These are matters which we must work out if we are to continue to market in some orderly fashion into this future.

Currently, the world supply of milk exceeds the demand for it at the prices which have developed this supply. This situation is almost certain to bring increasin pressure upon United States markets from abroad.

We must -- above all we must -- be prepared to deal with this.

As an increasing percent of our total population gravitates toward the cities, and therefore elects our Congress, we must be prepared to deal in this important arena in our own behalf. We must, indeed, be prepared to deal with an Administration which depends almost solely on city votes for its continuance.

It is to these problems that we must begin to address ourselves. We must first attempt to develop a model of the characteristics of the dairy farm of the future. We must also model the dairy market. We must then search among the farming techniques and the marketing structures which we have developed to make certain that they will meet the demands which are almost certain to be made upon them by this fascinating future into which we are apparently rushing headlong.

This is not to say that we should expect to find immediate and total solutions to all the possibilities which confront us. But certainly we must begin to decide what our position in this future is to be and to plan our activities so that as we move into it we will not stumble, and as we arrive in it we can find it a profitable place in which to produce and market milk.

The Effects of Current Government Policy On Imports and Exports of Dairy Products

Paul G. Christ
Agricultural Marketing Specialist
Land O Lakes

My topic is a broad one and I can only cover a few aspects of it in the time allotted me. What I would like to do is review the development of our current dairy import control program and try to identify some of the future difficulties we may face in maintaining an effective program. I would also like to discuss briefly the export situation with respect to nonfat dry milk. You will see that most of our experience has been confrontation with government. I think cooperation would have served us better.

Most of us remember the dairy import crises of the late 1960's. During those years foreign dairy interests played the game of "Loophole" with import quotas under Section 22 of the Agricultural Adjustment Act. The series of events started with the fabrication of a dairy product that was not specifically defined under the quotas. Next the Bureau of Customs was persuaded that the item was not a quota item, and soon large exports were made to the United States.

With the appearance of each new product, whether it was a butterfat/sugar mixture or chocolate crumb, or high fat "ice cream", American dairy interests set about getting a quota established. This involved persuading the Secretary of Agriculture to advise the President that imports of the new dairy product were interfering, or were likely to interfere with the operation of the dairy price support program. The President would then request the Tariff Commission to conduct an investigation and make a recommendation. The Tariff Commission hearing was always well attended and foreign dairy interest competed in selfrighteousness, and domestic dairy interests competed in reciting horrors.

Eventually, the Tariff Commission would recommend that a new specific quota be established for the new product. This process was long and cumbersome, and profited foreign dairy interests at the expense of American dairymen. The new quotas represented a net increase in foreign access to the U. S. market.

By the early 1970's the imagination of foreign dairy exporters in creating new evasion products fortunately was wearing thin, and so was the patience of domestic dairymen.

In spite of the repeated damage brought on by quota evasion, U. S. dairy leaders failed to develop a permanent solution to the problem. The government was a handy scape-goat for the wrath of dairymen, and little effort was made to work with government to find a solution. Many dairy leaders made themselves look good damning foreign exporters and the U. S. government. Some years they got to do it more than once.

A major shift in government policy that affected all of the economy was the Economic Stabilization Program. Late in 1972, after a year of experience with failure with wage and price controls, the Economic Stabilization program managers sought new government actions that would reduce inflation, or at least give the appearance of reducing inflation. Since food prices were the prominent area of concern, programs of the Department of Agriculture came under especially close scrutiny. A number of activities were found that appeared to restrict supplies and raise prices. These included marketing guides, marketing orders, Section 32 purchases, acreage restrictions, the dairy price support program, and dairy import quotas.

Very soon, a new dimension was added to the problem of dairy imports. On December 30, 1972, an emergency Presidential proclamation was issued authorizing imports of an additional 25 million pounds of nonfat dry milk, over and above the regular quota of 1.8 million pounds. Needless to say, American dairy leaders reacted with dismay. This action was particularly disappointing to dairymen because there was no mechanism to forestall the actual imports. A Tariff Commission investigation was requested by the President when he expanded the quota, but by the time it was conducted, it was redundant. The expanded quota had already been filled.

This action worked so well, in terms of the goals of the Economic Stabilization program, that it was repeated five more times in 1973, and twice in 1974. Four proclamations authorized the entry of an additional 390 million pounds of nonfat dry milk, two authorized an additional 165 million pounds of cheese, and one authorized the equivalent of 84 million pounds of butter.

While all this was taking place, dairy leaders were extremely inflexible. They failed to recognize the shift in national policy that put economic stabilization first and all else second. They failed to exercise practical politics by helping to find ways to moderate dairy product price increases and at the same time minimize damage to dairymen. The case for imports was not totally unfounded in 1973, but the input of dairymen was little more than recrimination. Partly because of this, the management of imports was badly fumbled. The wrong products came in at the wrong time. At a time when a price tilt in favor of cheese was doing great damage to the butter/nonfat dry milk industry, most import actions brought in nonfat dry milk, and butter, instead of cheese. This had the effect of expanding the tilt, not reducing it.

As we all now know, the series of dairy import actions was badly overdone. In particular, the last three actions that authorized the import of 84 million pounds of butter equivalent in November 1973, 100 million pounds of American cheese in January 1974, and 150 million pounds of nonfat dry milk in March 1974 could not be absorbed by the dairy sector and simply added to rapidly developing dairy surpluses.

It is wrong to conclude that all would have been well for U. S. dairymen had imports not come in. In fact, through March 1974, things were pretty good for U. S. dairymen. You should recall that milk prices received by farmers rose 36 percent from March 1973 to March 1974. This was during a period when retail prices of all foods rose 18 percent, and during a time when the administration sought to minimize price increases. This was also during the time that most of the dairy import actions took place.

While I agree that the final import actions had a devastating effect on dairy product markets, I would point out that the rapid run up in milk and dairy product prices during the fall of 1973 also contribured a great deal to the problem. At the time milk prices peaked in March, consumers had cut back more than eight percent in purchase of fluid milk and cream products. This reaction caused milk to back up in manufacturing plants, creating an oversupply of products, with or without additional imports.

Our experience with Section 22 quotas has not been pleasant. During the late 1960's foreign dairy exporters steadily chipped away at the existing quotas by finding new loopholes. Then in 1973 and 1974, we discovered that the system of quotas offered little, if any, real protection. They could be removed at the whim of the Administration. Although we now have assurances from President Ford that quotas will not again be expanded without first consulting domestic dairy interests, he has not guaranteed that quotas will never be expanded by emergency proclamation.

Sensing the weaknesses in the system of Section 22 quotas, the National Milk Producers Federation filed a lawsuit against the government in September 1973 to force the application of countervailing duties on subsidized dairy imports. As you know, Section 301 of the Tariff Act of 1930 provides that if an imported product benefits from a bounty, grant, or subsidy, the Secretary of the Treasury is required to levy a countervailing duty to offset the subsidy. That law and predessor laws have been on the books at least since the 1920's. Until recently, it had been used only once with respect to dairy product imports. The one exception was a countervailing duty order issued against Australian butter in the 1930's.

The government raised a number of procedural issues, but failed to have the lawsuit dismissed. Then in July 1974, the European Community suspended payment of subsidies on all dairy product exports to the United States. This left moot the question of whether the Treasury was required to collect countervailing duties. Rather than pursue a moot issue, the National Milk Producers Federation entered a stipulation with the Treasury Department providing that when and if subsidies were again paid by the European Community, a countervailing duty order would be issued. That ended the dispute for a short time.

Early in 1975, the Trade Reform Act of 1974 was signed into law. This law added specificity and strength to the countervailing duty section of the Tariff Act. It provided a 12 month time limit for the issuance of a countervailing duty determination, but permitted a 4-year waiver of collection of the duties if certain conditions were met.

Within a month of the effective date of the Trade Reform Act, the European Community announced its intention to reinstate subsidies on all cheeses except Cheddar exported to the United States. It was contended that the new set of subsidies met the conditions for a waiver of duties. U. S. dairy interests objected strongly, and a series of heated negotiations, now called the "Cheese War", got underway.

The dispute was resolved in April with a compromise. The European Community removed subsidies from all industrial type cheeses used for processing, and generally competitive with domestically produced cheese. Subsidies remained, however, on a group of specifically identified table cheeses that do not compete directly with domestic varieties. In return, no countervailing duty order has been issued against dairy products of the European Community.

Although no countervailing duty order has been issued against the European

Community such orders have been issued against Emmenthaler cheese from Austria and Switzerland, and preliminary determinations have been made on cheeses from Norway, Finland, and Sweden.

The experience of the past year demonstrates that the countervailing duty statute finally has teeth. Dairy exporters around the world know that if they subsidize dairy product exports to the United States, a countervailing duty investigation will be made.

This is good news to all of us who have an interest in protecting the dairy industry and dairy farmers against unfair competition. We now have the most effective system of import controls that has ever existed in the United States.

I caution you, however, not to become complacent. I can see several problems on the horizon. The predominant problem is the chronic worldwide surplus of dairy products. Each major dairy producing nation is carrying burdensome stocks and is seeking disposal outlets.

Other dairy producing nations will continue to seek access to the United States market by whatever means is available to help relieve their own domestic surplus problems. A major means for seeking access will be the multinational trade negotiations now underway in Geneva. I have little doubt that a major negotiating goal for both the European Community and New Zealand will be guaranteed access to the American market.

We are not in a very attractive position in those negotiations. The U. S. has been successful in keeping together the negotiations for agricultural and industrial products. This is important since we have few trade impediments in the agricultural sector compared to other nations. We simply don't have the necessary trading chips in agriculture that are needed to get meaningful concessions from other nations. All we do have is Section 22 quotas and countervailing duties.

In spite of the joint negotiations for agricultural and industrial products, we still face great danger of losing our dairy import control program. We have been reminded repeatedly that it is inconsistent for the U.S. to seek free trade in grains and soybeans, while insisting on barriers to trade in dairy products and meat.

So we can expect great pressure on our dairy import control system. To prevent its collapse, we must be alert to all proposals forthcoming from the trade negotiations. We must evaluate them and be willing to bend when there are mutual benefits available and to stand firm when they are not. As serious as were our problems in the past, our problems in the future could be worse.

The final topic deals with exports. I presume that many of you were curious as to why USDA failed to dispose of the large surplus of nonfat dry milk in food aid outlets during the last two years. The answer is a good lesson in the complexity of government.

As the CCC stock of nonfat dry milk grew in 1974 and 1975, we encouraged USDA to make the product available to our foreign food aid clients. We were told that this could not be done because the Office of Management and Budget would not earmark funds for that purpose. It seemed odd that if the product had already been purchased, that additional funds were needed. It turns out that the method of accounting used by the government charged the AID program the dollar value of any CCC owned-nonfat dry milk used in foreign feeding. In view of AID's goal of feeding the most people on a limited number of dollars, they could not afford to purchase nonfat dry milk when they could get more nutrition for less money in other products.

Another impediment existed in that nonfat dry milk in storage is considered an asset and is not recorded as a government cost until it is disposed of at a loss. Thus, in times of budget restraint, such as now, it made accounting sense to store the product and defer the budget expense until later.

All this may have been amusing were it not for the fact that the milk powder was getting old and going off grade. What really got the industry's attention was being told by USDA that as much as 200 million pounds of standard grade powder may have to be removed from government storage and put on the commercial market during 1976 before it deteriorated below human grade standards.

With this prospect in mind, several meetings were held with USDA, ONB, and AID to resolve the impediments to overseas distribution. These efforts were eventually successful and funds will be available for the removal of up to 300 million pounds during this and the next fiscal year.

The point illustrated in this series of events is that industry took little interest in the problems of government until it was nearly too late. When it did get involved, it was cooperation, not confrontation, that accounted for the successful outcome.

Most of our experience with dairy imports and exports has been bad. I think the experience in the future can be better. We learned from the "Cheese War" and the non-fat dry milk disposal problem that we can make the most of a bad situation by cooperating with government officials, rather than confronting them.

Services Provided by Dairy Cooperatives and What They Cost

R. E. Deiter, J. W. Gruebele and E. M. Babb
Former Research Assistant and Professor
University of Illinois
and
Professor - Purdue University

Cooperatives today are assuming a larger role than before in the delivery of a wide variety of services that affect the efficiency of the dairy marketing system. Many cooperatives have broadened the scope of their operations to include services related to the functions of assembly, balancing supplies, demand stimulation and handling market surpluses, in addition to the more traditional services associated with quality control, procurement, check testing, and representing the producer in the price-making process. Cooperatives are providing many services which were formerly performed by milk processors. Some handlers have become more concerned with plant and distribution efficiencies than with procurement. Handlers demand services as well as raw materials from cooperatives while, at the same time, trying to avoid the risks of handling surpluses. The way in which cooperatives are organized, it is likely that they can perform many of these functions more efficiently than other market participants.

Dairy cooperatives have made adjustments in their organization and functions because of the changing economic conditions in the dairy industry. Improvements in roads, trucks, refrigeration, and dairy processing equipment have resulted in fewer and larger dairy plants. Supply areas, as well as distribution areas have been expanded due to these economic changes. Milk handlers have become much larger. A significant number of handlers have entered into arrangements whereby their milk needs on a day by day basis are supplied by dairy cooperatives.

The increased involvement of cooperatives raises some new questions. One is which services should be provided and what level, or what is the optimum level of services? The answer to this question requires an analysis of social costs and benefits.

A second problem has to do with equity. There may be significant benefits to some market participants who do not share in the cost of providing those services. For example, any action that leads to an increase in the uniform price of milk increases the income of all producers. It is possible that a fraction of a cent per hundredweight paid in balancing supplies, minimizing hauling costs, negotiating prices, etc., may net all producers many cents per hundredweight in higher prices or in more stable market conditions. Issues of efficiency or equity cannot be adequately studied until quantitative data on size and distribution of costs and benefits of cooperative services are available.

Objectives of Report

This report is part of a North Central Regional Research project entitled "Alternative Solutions to New Problems Facing Dairy Marketing Cooperatives."[1] The objectives for this part of the project were to obtain information concerning:

1. The extent and specific nature of cooperative service programs.

---

[1]Members of NC101 North Central Regional Committee on Dairy Marketing Research responsible for surveying dairy cooperatives were: E. M. Babb, Indiana; R. L. Beck, Kentucky; T. F. Graf, Wisconsin; J. W. Gruebele, Illinois; J. J. Hammond, Minnesota; R. E. Jacobson, Ohio; G. W. Ladd, Iowa; and Glynn McBride, Michigan.

2. Legal, institutional, and economic factors that might help explain variations in cooperative service programs.

3. The cost to cooperatives of providing services.

Questionnaires were used in personal interviews with management of dairy cooperatives located in the North Central Region. An attempt was made to interview as many cooperatives as possible that were extensively involved in handling fluid milk.

Characteristics of Cooperatives

Number and Type of Cooperatives

Data for forty dairy marketing cooperatives were analyzed in the study. Most of the data in this part of the study were for fiscal 1973. Three types of cooperatives were identified. (See Table 1) The bargaining cooperative was one that processed less than 10 percent of its total milk receipts, or one that sold more than 90 percent of its milk receipts to some other handler. An operating cooperative was one that processed more than 90 percent of its total milk receipts, or alternatively one that sold less than 10 percent of its total milk receipts to another handler. A combination cooperative was one that processed between 10 and 90 percent of its total milk receipts. There were 10 bargaining, 9 operating, and 21 combination cooperatives in this study.

The size of participating cooperatives, as measured by total annual receipts varied from less than 75 million pounds of milk for one cooperative to more than 15 billion pounds of milk for another cooperative. The cooperatives were grouped into five size categories. It was intended that the size categories would contain cooperatives with comparable features and similar operations, while at the same time maintaining some uniformity in the number of firms in each size classification.

Table 1. Number of Cooperatives Included in the North Central Regional Study By Size and Type of Cooperative, 1973

	TYPE			
Size[1]	Bargaining	Operating	Combination	Total
Greater than 2,000,000	1	0	5	6
500,000 - 2,000,000	2	1	5	8
200,000 - 500,000	3	2	4	9
100,000 - 200,000	2	0	6	8
Less than 100,000	2	6	1	9
Total	10	9	21	40

[1]Total Annual Receipts (000 Pounds)

Total Receipts

Total annual receipts for the 40 cooperatives in this study totalled 47.5 billion pounds, or about 40 percent of the total milk production in the U.S. (See Table 2).

Bargaining and operating cooperatives represented less than 15 percent of the total annual receipts of the cooperatives included in the study. The largest size grouping, representing less than 15 percent of the number of cooperatives, averaged over 6 billion pounds of milk receipts annually and accounted for nearly 37 billion pounds of milk, or 78 percent of the total milk handled by the cooperatives in this study. Less than one and one-half percent of the total milk receipts was handled by cooperatives in the smallest size group.

Of the total milk receipts for the 40 cooperatives included in this study, more than 93 percent of all milk receipts were from cooperatives member producers.

Grade A milk receipts accounted for nearly 80 percent of total annual milk receipts for the 40 cooperatives. Nearly all of the receipts for bargaining cooperatives were Grade A. On the other hand, nearly 1/2 of the milk receipts for operating cooperatives was received from manufacturing grade producers. Many of the operating cooperatives in this study were manufacturing butter, cheese or powder.

Milk Processed

The 40 cooperatives included in the study processed about 1/3 of the milk in their own facilities (See Table 3). Operating cooperatives processed nearly 95 percent of their annual milk receipts. Bargaining cooperatives sold almost all of their milk supplies to other handlers or processors. Only one out of the 10 bargaining cooperatives processed any milk.

Table 2. Annual Receipts by Type and Size of Firm For the 40 Dairy Cooperatives in the North Central Region, 1973.

Cooperatives	Total Receipts (000 Pounds)	% of Total For All Cooperatives
All	47,466,605	100.0
Type:		
Bargaining	5,057,380	10.7
Operating	1,691,170	3.5
Combination	40,718,100	85.8
Size:		
Greater than 2,000,000	36,913,271	77.8
500,000 - 2,000,000	5,626,695	11.9
200,000 - 500,000	3,044,265	6.4
100,000 - 200,000	1,229,635	2.6
Less than 100,000	652,739	1.4

Table 3. Disposition of Total Annual Receipts for 40 Cooperatives in the North Central Region, 1973

Cooperatives	% Of Total Annual Receipts: Processed In Cooperatives' Own Processing Facilities	% Of Total Annual Receipts: Sold To Other Handlers Or Processors
All	33.7	66.3
Type:		
Bargaining	1.0	99.0
Operating	94.7	5.3
Combination	35.2	64.8
Size:		
Greater than 2,000,000	29.3	70.7
500,000 - 2,000,000	46.5	53.5
200,000 - 500,000	48.0	52.0
100,000 - 200,000	53.7	46.3
Less than 100,000	68.1	31.9

There was an inverse relationship between the size of the cooperative and the precentage of total receipts processed in the cooperatives' facilities. Cooperatives with annual receipts of more than 2 billion pounds processed only 29 percent of their receipts, while the cooperatives with less than 100,000 pounds of milk receipts annually, processed two-thirds of their milk receipts in their facilities.

Of all the milk processed by cooperatives, over 85 percent was processed into non-class I products. (See Table 4) For the operating cooperatives, about 61 percent was processed into non-class I products.

For the largest sized cooperatives, over 92 percent of the milk processed was manufactured into non-class I products, perhaps reflecting the fact that these cooperatives tended to be the ones responsible for handling a major part of the surplus milk in the federal order markets.

In contrast to the milk that cooperatives processed in their own facilities which tended to be manufactured into non-class I products, nearly 90 percent of the milk sold to other handlers went for Class I uses. (See Table 5).

Combination cooperatives and the largest sized cooperatives tended to sell milk to Class I handlers, perhaps reflecting the fact that larger cooperatives are better able to supply the ever growing volumes of milk demanded by fluid milk processors.

Services

Up to this point, we have described the cooperatives included in the study. We would like to discuss the services provided by cooperatives. Theoretically, any activity which is of value to either producers, consumers, or processors should be regarded as a service.

Table 4. Disposition of Milk Processed By 40 Cooperatives By Size and Type in the North Central Region, 1973

Cooperatives	% Of Total Milk Processed By Cooperatives In Their Own Facilities That Was Processed Into	
	Class I Products	Class II Products
All	13.8	86.2
Type:		
Bargaining	9.3	90.7
Operating	39.3	60.7
Combination	11.0	89.0
Size:		
Greater than 2,000,000	7.5	92.5
500,000 - 2,000,000	30.8	69.2
200,000 - 500,000	28.0	72.0
100,000 - 200,000	12.6	87.4
Less than 100,000	22.8	77.2

Table 5. Disposition of Milk Sold By 40 Cooperatives in the North Central Region, 1973

Cooperatives	% Of Total Bulk Milk Sold By Cooperatives: To Primarily Class I Handlers	% Of Total Bulk Milk Sold By Cooperatives: To Primarily Class II Handlers
All	88.2	11.8
Type:		
Bargaining	85.9	14.1
Operating	22	88
Combination	88.8	11.2
Size:		
Greater than 2,000,000	90.3	9.7
500,000 - 2,000,000	76.6	23.4
200,000 - 500,000	79.0	21.0
100,000 - 200,000	84.0	16.0
Less than 100,000	84.3	15.7

Types of Services

Three different types of services were identified--farm level, market level and national level services.

Farm Level

Farm level services are primarily for the benefit of producer members. The benefits from these services are usually excludable--that is--the benefits from these services accrue only to those who pay for the services and not to other producers. These services are generally directed at reducing production costs, improving milk quality and improving decision-making.

Market Level

Market level services include activities associated mainly with the functions of processing and distributing milk production rather than production at the farm level. These services attempt to assure members of a market for their milk, improve marketing and pricing efficiency, and maximize the returns from the sale of milk. The benefits from market level services are largely non-excludable and can be viewed somewhat like a public good. An example of a market wide service is demand stimulation programs. It would be extremely difficult to limit the benefits of this service to just those who pay for the service.

National Level

A growing number of services are performed at the national level as dairy cooperatives and the markets within which they operate have expanded in size. Such services include (1) promotion of laws and regulations in the interest of dairy farmers, (2) public relations with governmental agencies, farm organization and the public at large, (3) coordinating the activities and allocating funds to many organizations that serve dairy farmers, (e.g., United Dairy Industry Association, National Milk Producers Federation), and (4) developing and implementing plans to coordinate and improve milk marketing on a broad basis. National level services were not analyzed in detail in this report.

Services Provided

There were 17 farm level services identified on the questionnaire. These services were arranged according to the percent of cooperatives providing that service in Table 6. The services that tended to be provided most frequently were services that were associated with the quality of the milk or in making payments to producers.

Those services provided least frequently were of a specialized nature, such as, retirement programs, management training schools and assisting in finding and training labor. Eleven out of the 17 services listed were provided by one-half or more of the cooperatives.

There were 24 market level services on the questionnaire. These are listed according to the percent of cooperatives providing that service in Table 7. The market level services provided most frequently included demand stimulation and advertising, public relations and joint efforts, coordination with other cooperatives and participating in federal order hearings.

The services provided least frequently were those performed for a specific handler such as split loads, delivery of preconditioned milk and the like.

The average number of services provided was 11.2 at the farm level and 14.1 at the market level (See Table 8). There is not much variation in the number of services provided at the farm level by type or size of cooperative. The combination type and the largest sized cooperatives tended to provide a

Table 6. Farm Level Services Provided By 40 Dairy Cooperatives In the North Central Region, 1973.

Farm Level Services	% Of Cooperatives Providing Service
Check Weights and Tests	97
Field Services	97
Assist with inspection	92
Make milk payments to producers	90
Guarantee Daily Market Outlet	87
Quality work	87
Sell milking supplies and equipment	85
Insurance programs	85
Marketing and Outlook information	77
Insure payment from dealers	77
Negotiate hauling rates	60
Sell or purchase feed and other inputs	47
Assist in getting capital, credit, etc.	40
Information on price, inputs, etc.	30
Retirement programs	27
Management training schools	12
Assist in finding and training labor	10
Other	7

Table 7. Market Level Services Provided by 40 Dairy Cooperatives in the North Central Region, 1973

Market Level Service	% Of Cooperatives Providing Service
Demand stimulation, advertising, etc.	92
Public relations and joint efforts	92
Coordination with other cooperatives	90
Participate in federal order hearings	85
Pay haulers	80
Quality control	80
Direct farm to market movement of milk	72
Handle surpluses to maximize returns	70
Market research	67
Negotiate prices and service charges	65
Joint sales efforts with handlers	65
Maintain storage facilities	60
Balance supplies among dealers	57
Sell milk F.O.B. receiving plant	55
Full Supply arrangements	52
Process surplus milk in the market	52
Allow for farm shrinkage	50
Make out of market sales	45
Tailor market supplies to market needs	42
Service distribution channels	35
Provide specialty products	32
Assure plants pool qualification	32
Deliver preconditioned milk	17
Split loads to dealers	17

Table 8. Average Number of Services Provided By 40 Dairy Cooperatives in the North Central Region, 1973.

Cooperatives	Farm Level	Market Level	Total
All	11.2	14.1	25.3
Type:			
Bargaining	10.3	11.7	22
Operating	11.0	10.7	21.7
Combination	11.6	16.6	28.2
Size:			
Greater than 2,000,000	11.8	20.3	32.1
500,000 - 2,000,000	12.2	17.2	29.4
200,000 - 500,000	10.3	14.8	25.1
100,000 - 200,000	11.6	13.1	24.7
Less than 100,000	10.1	7.3	17.4

larger number of market level services than did the bargaining, operating or smaller sized cooperatives.

Total services provided was mainly dependent upon the number of market level services provided, since there was little variation in the number of farm level services provided by the 40 cooperatives in this study. A statistical analysis showed that there was also a significant relationship between the number of services provided and the size of cooperative and whether or not it was a combination cooperative. Combination type cooperatives and larger cooperatives provided a larger number of services.

Cost of Providing Services

Questions are being raised about prices being charged by cooperatives. One area in which information is critically needed is that of the cost of providing various services. One of the major problems encountered in this part of the study is that the accounting records of many cooperatives are not adequate to identify the cost of individual services. It was much easier for cooperatives to provide information on the cost of whole groups of farm level services and market level services. The average cost of performing all services for the 31 cooperatives who provided complete cost information was 8.5 cents per hundredweight. (See Table 9). Cost means the actual cooperative expenditure on services, excluding federal order and super pool contributions. In most cases, the expenditure on services would have been 3 to 4 cents per hundredweight higher if the federal order and super pool deductions had been included.

The largest sized cooperatives spent an average of 15.09 cents per hundredweight on farm level and market level services. The smallest cooperatives spent an average of less than 5 cents per hundredweight on services. Combination type cooperatives spent larger amount on services than did other types.

Table 9. Average Cost of Providing Services For 31 Cooperatives in the North Central Region, 1973

Cooperatives	Cost (¢/cwt.)
All	8.50
Type:	
Bargaining	5.85
Operating	7.24
Combination	10.03
Size:	
Greater than 2,000,000	15.09
500,000 - 2,000,000	11.26
200,000 - 500,000	5.79
100,000 - 200,000	6.48
Less than 100,000	4.99

The expenditures on farm level services and market level services by the 31 cooperatives was about the same. Only about .2 cents per hundredweight was spent on national level services.

Bargaining and operating cooperatives spent more for farm level services than for market level services, while combination type cooperatives spent more for market level services than for farm level services. Also, the largest sized cooperatives spent almost twice as much on market level services than on farm level services. The opposite was true for the smallest cooperatives.

A preliminary statistical analysis showed that the number of market level services explained a significant amount of variation in the cost of services. Other variables that were significantly related to cost of services included the size of cooperatives, whether or not the cooperatives was losing money in handling surpluses and whether or not the cooperative provided a full supply arrangement with fluid milk processors.

Full supply contracts were defined as an arrangement between a cooperative and a handler in which the cooperative agrees to deliver a desired volume of milk to the handler where he wants it and when he wants it and the cooperative agrees to dispose of any surplus.

About one-half of the cooperatives in this study offered full supply arrangements. (See Table 11.) On the average, if a cooperative provided this service, about 90 percent of the milk moved under the full supply arrangement. Combination type and large cooperatives tended to offer full supply arrangements. Only 22 percent of the operating cooperatives and only 11 percent of the smallest cooperatives offered this service. With relatively small volumes of milk, these smaller cooperatives are not capable of entering into full supply arrangements, especially with medium

Table 10. Average Cost of Providing Services By Level of Services For 31 Dairy Cooperatives By Size and Type of Cooperative, the North Central Region, 1973.

Cooperatives	Farm Level Cost (¢/cwt.	Market Level Cost (¢/cwt.)	National Level Cost (¢/cwt.)
All	4.6	4.25	.20
Type:			
Bargaining	3.35	2.80	.10
Operating	4.04	3.10	.34
Combination	4.61	5.22	.20
Size:			
Greater than 2,000,000	5.21	9.67	.22
500,000 - 2,000,000	5.08	5.99	.19
200,000 - 500,000	3.15	3.26	.29
100,000 - 200,000	4.70	1.90	.11
Less than 100,000	3.39	1.71	.22

Table 11. Percent of 40 Cooperatives Providing a Full Supply Arrangement With Handlers, By Size and Type of Cooperatives, the North Central Region, 1973.

Cooperatives	% of Cooperatives Providing Full Supply Services
All	52
Type:	
Bargaining	50
Operating	22
Combination	67
Size:	
Greater than 2,000,000	100
500,000 - 2,000,000	62
200,000 - 500,000	56
100,000 - 200,000	50
Less than 100,000	11

or large sized fluid milk processing firms.

A partial analysis shows the cost of some individual farm level services, (See Table 12). The most costly service was field service with expenditure of 1.6 cents per hundredweight. The average cost for checking weights and tests was only .5 cents per hundredweight. The cost of providing an insurance program was very small. It was not possible to identify the cost of other individual services because of the difficulty in obtaining reliable data.

The average cost per service was .28 cents per hundredweight at the market level and .36 cents per hundredweight at the farm level. The average cost per service was larger at the farm level than at the market level for all types of cooperatives. However, the average cost per service was larger at the market level than at the farm level for the largest sized cooperatives. The opposite was true for the smallest cooperatives. The larger cooperatives spent more per service than smaller cooperatives. This may be explained by the fact that larger cooperatives provide more costly services, or in some cases more complete or better quality service than smaller cooperatives. This does not mean that smaller cooperatives are lax in services they provide, but rather that it isn't possible or in some cases practical for them to provide the kind of services that larger cooperatives can provide.

Conclusions

This study shows that there are a significant number of services provided by dairy cooperatives for milk producers, for milk handlers as well as for other market participants.

Dairy cooperatives have adjusted to the changing market conditions and, as a result of these changes, are providing a greater number of market

Table 12. The Cost of Performing Some Individual Farm Level Services for 31 cooperatives, the North Central Region, 1973.

Service	Costs/cwt.
Checking weights and tests	0.5
Field services	1.6
Selling milk supplies	0.2
Providing marketing information	0.2
Providing insurance program	0.1
Making payments to producers	0.6
Quality control work	1.2

Table 13. Average Cost Per Service for 31 Dairy Cooperatives At the Market Level and at the Farm Level by Type and Size of Cooperative, the North Central Region, 1973.

Cooperatives	Market Level Service	Farm Level Service
	(¢/cwt.)	(¢/cwt.)
All	.28	.36
Type:		
Bargaining	.22	.28
Operating	.31	.33
Combination	.29	.41
Size:		
Greater than 2,000,000	.50	.44
500,000 - 2,000,000	.35	.44
200,000 - 500,000	.19	.21
100,000 - 200,000	.15	.41
Less than 100,000	.24	.30

level services than before. The larger cooperatives and the combination type cooperatives provide a greater number of market level services than do smaller cooperatives. The larger cooperatives are in many cases more able to balance supplies among handlers, to provide for full supply arrangements and the like. As a result, the larger cooperatives not only spent more for services on an overall basis, but also expend more per service than do smaller cooperatives.

It is probable that dairy cooperatives can provide many farm and market level services more efficiently than can other market participants. Results from this study can provide needed information for evaluating the market performance of dairy cooperatives and others who are involved in moving milk from the producer to the consumer in the dairy industry.

Further research is needed to determine the costs of individual services particularly market level services and to explain the variation in the cost of individual services. Further research is also needed to determine the optimal level of services, to determine the social costs and benefits of services and how the costs of such services can be more equitably shared by market participants.

Situation and Outlook for the Dairy Industry

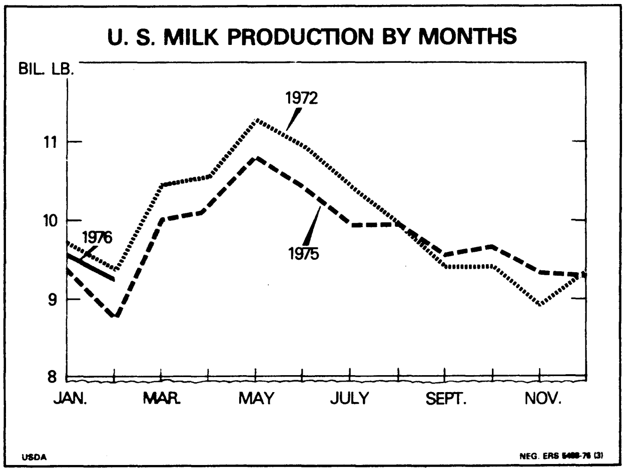
Charles N. Shaw
Agricultural Economist
Dairy Program Area, CED-ERS, USDA

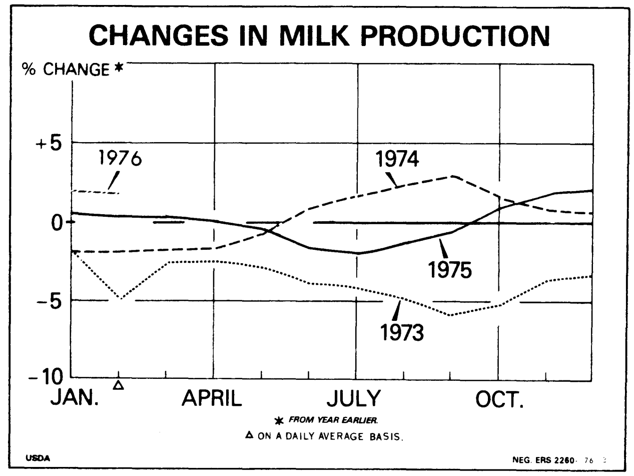
Most of you here this morning are very much aware of the current situation of the dairy industry. Likewise, many of you no doubt have your own ideas of the outlook for the industry in coming months. During the next few minutes I will discuss with you some of the factors which we believe will be influencing decision-making throughout the industry in coming months.

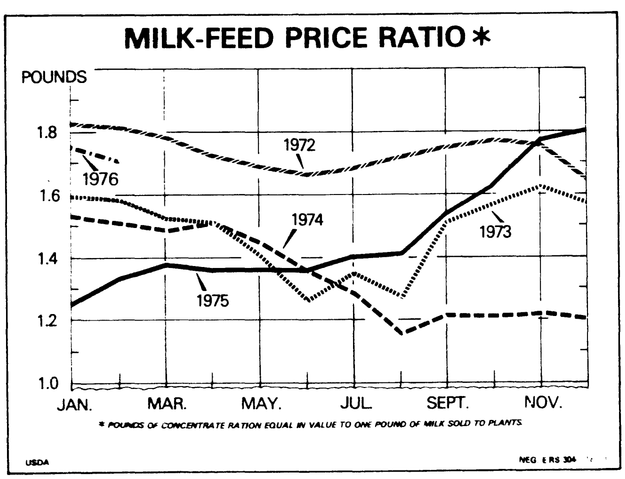
As a starting point, what happened last year to set the stage for 1976? Early 1975 was dominated by heavy supplies with prices staying close to support levels and USDA buying substantial quantities of dairy products. The situation changed last summer when lower milk production and strong consumer demand sparked sharp rises in wholesale dairy product and farm milk prices. Commercial dairy stocks were drawn down at a rapid pace late in 1975. Even though milk production recovered late in 1975, increased fluid sales kept supplies of milk for manufacturing rather tight and wholesale prices sustained their increased levels through late 1975.

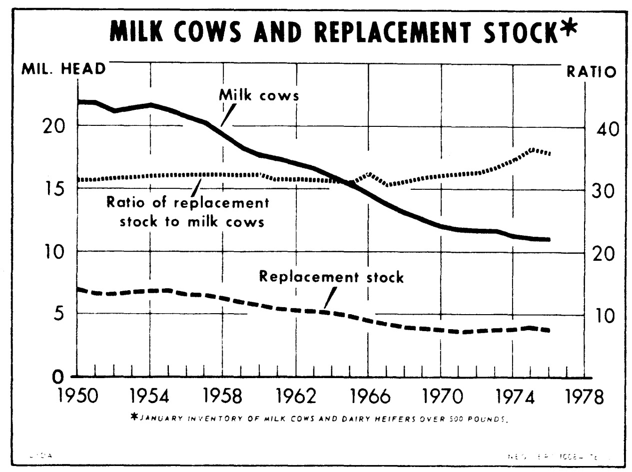
Milk Production Expanding

Milk output on a daily average basis in early 1976, has been almost 2 percent above year-earlier levels, reflecting the continued favorable milk-feed price relationships and heavier feeding of grain and other concentrates. The strong gains in output per cow easily offset the relatively small decline in milk cow numbers. In early 1976, milk cow numbers were down about 1 percent from year-earlier levels, still a relatively slow decline but slightly sharper than in early 1975.


U. S. MILK PRODUCTION BY MONTHS
BIL. LB.
11
10
9
8
1972
1976
1975
JAN.
MAR.
MAY
JULY
SEPT.
NOV.
USDA


CHANGES IN MILK PRODUCTION
% CHANGE *
+5
0
-5
-10
1976
1974
1975
1973
JAN.
APRIL
JULY
OCT.
* FROM YEAR EARLIER.
Δ ON A DAILY AVERAGE BASIS.
USDA


MILK-FEED PRICE RATIO *
POUNDS
1.8
1.6
1.4
1.2
1.0
1972
1976
1974
1973
1975
JAN.
MAR.
MAY.
JUL.
SEPT.
NOV.
* POUNDS OF CONCENTRATE RATION EQUAL IN VALUE TO ONE POUND OF MILK SOLD TO PLANTS
USDA


MILK COWS AND REPLACEMENT STOCK*
MIL. HEAD
RATIO
20
15
10
5
0
40
30
20
10
Milk cows
Ratio of replacement stock to milk cows
Replacement stock
1950
1954
1958
1962
1966
1970
1974
1978
*JANUARY INVENTORY OF MILK COWS AND DAIRY HEIFERS OVER 500 POUNDS.

Milk output per cow continued 3 percent higher than a year earlier in January and February, about the same year-to-year increase as during November and December. These gains were sparked by heavier grain feeding as farmers reported feeding 3 percent more concentrates than a year earlier on January 1 following a boost of more than a tenth on October 1.

Production increases early this year were fairly widespread, with the Pacific, Lake States (2.7), and Northeast regions all showing gains of around 3 percent or more. However, the Corn Belt (-1.5), Delta States (-2.4), and the Southern Plains (-1.2) entered 1976 on a weak note. Except for Minnesota where continued drops in output per cow held milk production below a year earlier the 5 major dairy States all posted strong gains.

The 1976 Outlook

Although milk production is off to a strong start, 1976 output will be influenced by several factors.

(1) Although remaining well above year-earlier levels, farm milk prices will decline sharply in coming months as recent wholesale price declines, reflecting the turnaround in market conditions, show up at the farm level.

(2) The support price for milk will be raised 42 cents to $8.13 per 100 pounds, estimated at 80 percent of parity, on April 1.

(3) Feed prices in coming months likely will be roughly the same as a year ago.

(4) The milk-feed price ratio will not continue at the 1.8 levels of November-January in coming months, but feeding relationships will be much more favorable than a year ago.

(5) Production costs other than feed are likely to continue climbing in 1976.

(6) There was a large supply of replacement heifers at the start of the year, running almost 36 per 100 milk cows, the second highest ratio on record.

(7) The slaughter cow prices have risen with Utility cows at Omaha going for about $28 per 100 pounds by mid-March, with some further rises expected this spring.

(8) Despite the recent improvement in the general economy, off-farm alternatives for dairymen are still quite limited and are unlikely to improve rapidly.

Milk production likely will remain strong during the first half of 1976 and probably will exceed 1975 levels by around 1 percent or more. The extent of gains during the second half of the year will depend on feed prices, cull cow prices, and developments in the general economy. If another large grain crop is harvested this fall, milk-feed price relationships probably will remain fairly favorable and gains of this magnitude in milk production likely would continue through the year. On the other hand, shortfalls in feed production or sharp jumps in herd culling could hold down milk output.

<u>1975 Milk Summary</u>

Milk production in 1975 totaled 115.5 billion pounds, virtually unchanged from both 1973 and 1974. Up just barely during the first quarter of 1975, output trailed year-earlier levels during April-September by as much as 2 percent in July. Milk production strengthened as the year drew to a close and November-December output was up about 2 percent.

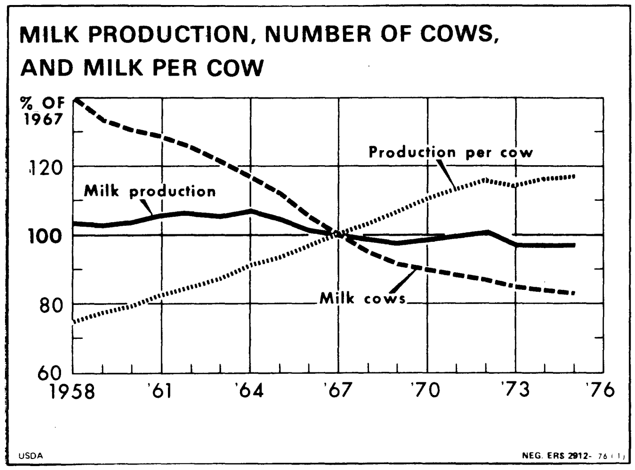
The major source of variation in milk output monthly last year was in milk production per cow. On an annual basis milk output per cow rose only about a half percent (54 pounds) to 10,354 pounds last year and was still only 1 percent above 1972 levels. The relatively small 1975 gain primarily reflects the relatively unfavorable milk-feed price relationships that existed from mid-1974 to mid-1975 which limited concentrate feeding. In addition, the large proportion of dairy heifers that evidently entered the milking herd during 1975 probably resulted in a relatively young dairy herd. While this tended to limit gains in output per cow during 1975, it may imply larger gains this year and next.

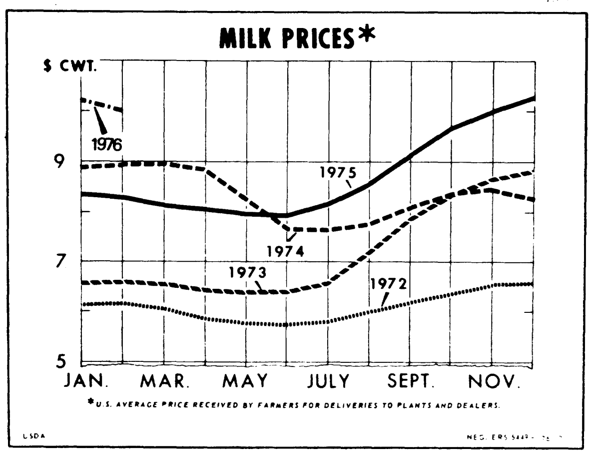
Last year, the U.S. milk herd averaged 11,150,000 cows, down less than 1 percent from 1974. This was the smallest year-to-year decline in 2 decades. Dairy cow numbers increased slightly in the important dairy regions of the Northeast, Pacific, and Lake States while declining elsewhere. The sharpest drops were in the Corn Belt and Plains States. Cow numbers were up in only 11 States although all of the 5 major dairy States were about the same or above a year ago.

In 1975, farmers' milk prices averaged $8.72 per 100 pounds, up 40 cents from 1974. Manufacturing milk prices averaged $7.69 last year, up 56 cents from 1974.

Farm Milk Prices Falling

Following sharp rises last fall and winter, farm milk prices have started to decline. Farmers received an average of $10.00 per 100 pounds of milk in February, down 30 cents from the record-high peak in December but $1.72 above a year earlier.


MILK PRODUCTION, NUMBER OF COWS, AND MILK PER COW
% OF 1967
120
100
80
60
1958
'61
'64
'67
'70
'73
'76
Production per cow
Milk production
Milk cows
USDA
NEG. ERS 2912-


MILK PRICES*
$ CWT.
9
7
5
1976
1975
1974
1973
1972
JAN.
MAR.
MAY
JULY
SEPT.
NOV.
*U.S. AVERAGE PRICE RECEIVED BY FARMERS FOR DELIVERIES TO PLANTS AND DEALERS.
USDA

Manufacturing prices averaged $8.55 in February, down 72 cents from December but up $1.51 from February 1975. Manufacturing milk prices thus far in 1976 have been pulled down by declines in wholesale dairy product prices, which started downward as market conditions began to ease in late December.

Adjusted to the annual average fat test, manufacturing milk prices in February averaged 80 cents above the $7.71 support level and 38 cents above the support level for the coming marketing year. However, manufacturing prices will drop closer to the new support level in coming months as more milk becomes available for manufacturing uses.

On March 3, the Secretary announced that the support price for the 1976/77 marketing year will be $8.13 per 100 pounds, up 42 cents from the current level. The returns to milk used in American cheese were increased about 30 cents per 100 pounds more than for milk used for butter-powder. The support price as well as CCC purchase prices will be reviewed quarterly.

Farm milk prices have started what will be a sharp seasonal decline in coming months, reflecting increased supplies of dairy products relative to demand. Although dropping $1 or more from the December peak, farm milk prices this spring will be 10-15 percent above year-earlier levels since declines will be limited by the $8.13 support price for the new marketing year starting April 1.

Fairly good expected demand and moderate total supplies set the stage for a substantial seasonal rise during the second half of 1976, although milk prices may be below year-earlier levels by year's end.

<u>Wholesale Prices Below Late 1975 Peaks</u>

Wholesale dairy product prices moved sharply lower after the first of the year, before strengthening recently. Increased supplies of milk available for manufacturing at the end of 1975 and a slowing of butter demand following the holiday buying season led to the declines in wholesale prices. However, the market strengthened as stocks of butter and cheese remained relatively tight. Prices are currently above the prices to be effective April 1, and March prices will likely average higher than February.

Grade A butter at Chicago was quoted at about 87 cents per pound at mid-March, down about 22 cents from the December peak. Wholesale American cheese prices have strengthened slightly recently following substantial declines early in 1976. In mid-March, 40-pound blocks were quoted at 96 cents per pound at Wisconsin assembly points, down about 8 cents from the December peak. Nonfat dry milk prices at 63-64 cents are near the support level and small purchases have been made by CCC in 1976 when prices touched the support purchase price.

Wholesale prices during the flush season likely will settle close to the new support purchase prices of 87-3/4 cents per pound for butter in New York, 90-1/2 cents per pound for Cheddar cheese, and 62.4 cents per pound for nonfat dry milk. Increased milk supplies, a possible weakening of fluid sales, and lower butter sales likely will all contribute, although rebuilding of commercial stocks and strong cheese sales may provide some firmness.

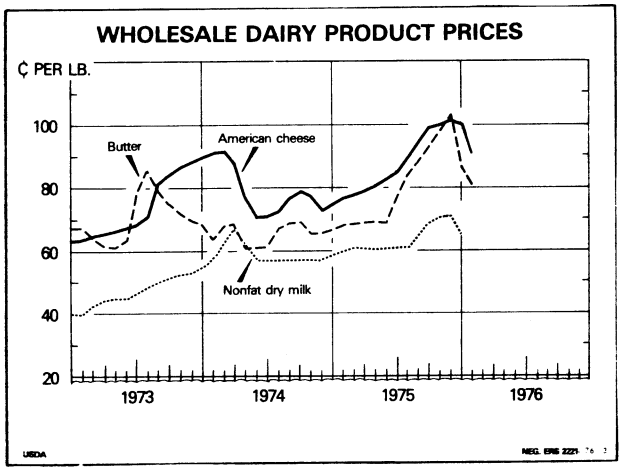
Retail dairy prices, which started rising rapidly last fall, continued to increase in February. The BLS index of retail dairy prices stood at 168.5 in February, up almost 8 percent from September and just over 8 percent above year-earlier levels. Retail prices of all food items were almost 5 percent above a year earlier in February and all items in the Consumer Price Index were up just over 6 percent.

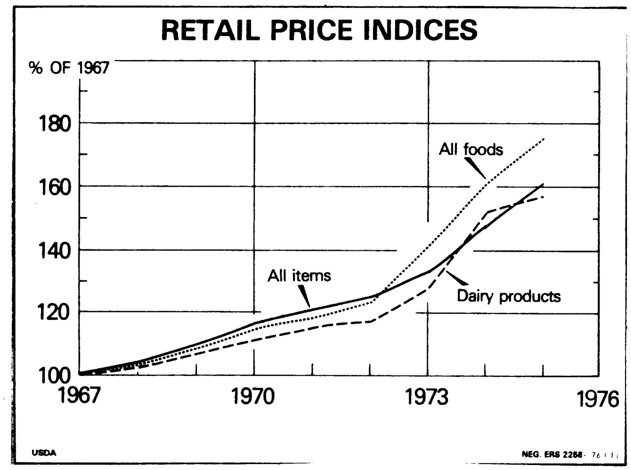
For all of 1975, retail prices of dairy products averaged about 3 percent above year-earlier levels, well below the 19-percent increase of 1974 and the 4-1/2 percent average increase of the early 1970's. Meanwhile, all food prices averaged about 8-1/2 percent higher in 1975 and all items in the CPI averaged about 9 percent higher. The largest jumps in dairy prices came late in the year, with increases in the fourth quarter averaging over 6 percent.

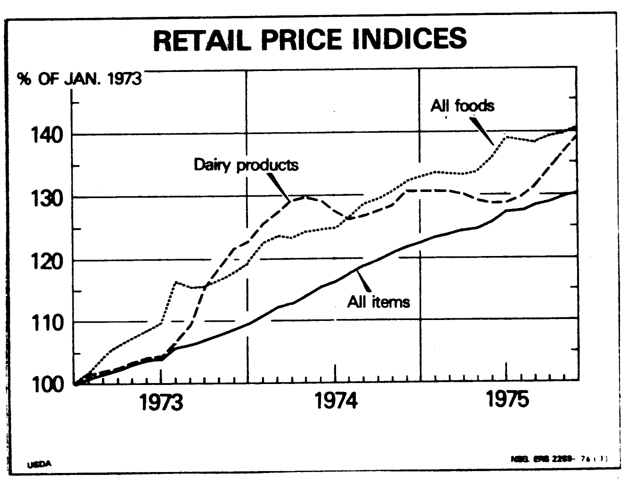
While retail butter and cheese prices may ease, retail fluid milk prices likely will rise before leveling off later this spring. Although wholesale prices are sharply lower, retail prices of all dairy products may hold fairly steady this spring. Farm to retail price spreads were reduced considerably during late 1975 but these spreads likely will widen in coming months. The retail price index for dairy products may show only modest rises from now until the end of 1976, resulting in an increase of 6-8 percent over the average for 1975.

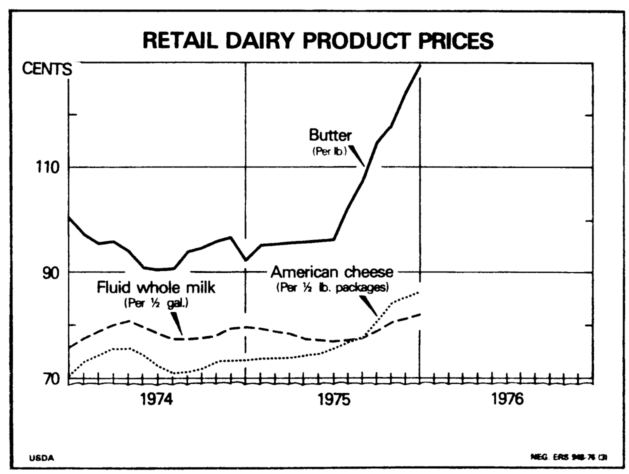
Dairy Sales Holding

Dairy sales started 1976 on a very strong note in January after a fairly modest last quarter of 1975. However, much of the 4-percent January gain from a year ago probably represented some rebuilding of


WHOLESALE DAIRY PRODUCT PRICES
¢ PER LB.
100
80
60
40
20
Butter
American cheese
Nonfat dry milk
1973
1974
1975
1976
USDA


RETAIL PRICE INDICES
% OF 1967
180
160
140
120
100
All foods
All items
Dairy products
1967
1970
1973
1976
USDA


RETAIL PRICE INDICES
% OF JAN. 1973
140
130
120
110
100
All foods
Dairy products
All items
1973
1974
1975
USDA


RETAIL DAIRY PRODUCT PRICES
CENTS
110
90
70
Butter
(Per lb)
American cheese
(Per ½ lb. packages)
Fluid whole milk
(Per ½ gal.)
1974
1975
1976
USDA

pipeline levels after the very tight situation of late 1975. American cheese, other cheese, and butter all posted significant gains.

The sharp rises in retail prices during late 1975, general economic recovery, and lower margarine prices likely will have significant impacts on 1976 dairy sales. Retail dairy prices this year will average well above year-earlier levels. In addition, the full impact of the late 1975 rises may not yet have been fully reflected in sales, especially of fluid products. Fluid sales were just slightly above year-earlier levels in January and may slip below the strong 1975 levels in coming months. If sales of fluid products remain fairly close to year-earlier during the first half of 1976, sales for the entire year could be about the same as in 1975.

Cheese sales likely will be strong, at least during the first half of the year. Besides rising consumer incomes, relatively high meat prices also will help boost sales. Retail meat prices are expected to be considerably above year-earlier levels and beef prices, especially for the cheaper cost, likely will rise. For all of 1976, total cheese sales may well surpass 1974 levels. On the other hand, butter will be very hard pressed to match 1975 sales. Unlike early 1975, there is now a substantial difference in retail butter and margarine prices. Disappearance of butter probably will be below year-earlier levels during most of 1976, although the drops may be partially cushioned by the fact that retail price relationships will be somewhat more favorable to butter than during the early 1970's and by some lag as consumers adjust to the reestablished price relationships. Nonfat dry milk use is expected to remain fairly weak, although it may show some gains over the sharply reduced levels of early 1975. However, user inventories apparently were rebuilt in late 1975 and some drawdown of these holdings can be anticipated.

For all of 1976, total dairy sales might be down slighly as lower fluid (on a milk equivalent basis) and butter sales offset increases in cheese. However, these sales may compare favorably with the early 1970's.

Total civilian disappearance of milk in all dairy products this year may be slightly below or about the same as last year, Expected increases in the amount of milk marketed by farmers may go toward rebuilding depleted stocks that existed at the start of 1976. This would indicate a drop in per capita consumption of around 1 percent, about the annual average decline of the early 1970's.

Production of American cheese started 1976 on a very strong note as wholesale cheese prices, held up by brisk sales, gave manufacturers a substantial edge over butter-powder plants in competing for available milk supplies. January output was up 14 percent from a year ago and weekly production estimates indicate that the February gain was slightly greater. Production of other varieties in January shows a 16-percent increase.

Early 1976 butter output has been below year-earlier levels. Butter production was down 3 percent in January from a year earlier and preliminary estimates indicate about a 7-percent drop in February. Despite the need for rebuilding stocks and respectable butter sales, butter-powder plants have not been in a competitive position for milk.

Production of manufactured dairy products probably will be up this year as milk production expands. Cheese output could show strong gains, surpassing both 1974 and 1975 levels. Butter production could be slightly lower to about the same.

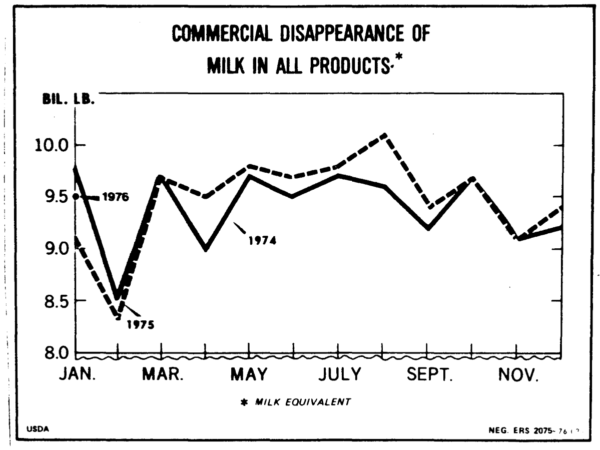
USDA Removals Drop

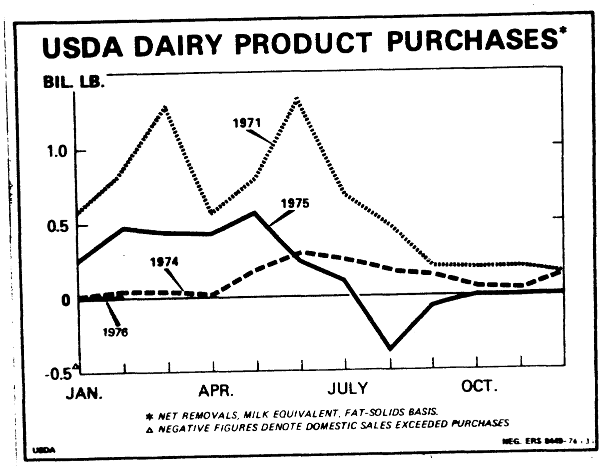
USDA removals of dairy products under the price support program have been below year-earlier levels since June. Net removals during April-February of the current marketing year totaled 0.9 billion pounds milk equivalent, down from almost 2.0 billion a year earlier. Only negligible amounts of butter and cheese have been bought since July.

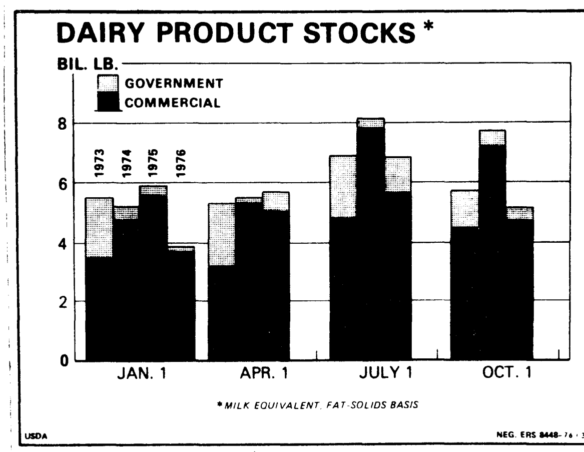
Removals of nonfat dry milk were by far the heaviest of the products. April-February net removals totaled 269 million pounds, down from almost 340 million pounds a year earlier.

If milk production remains well above a year earlier, price support-purchases could be sizable during the flush milk production season. The amounts of butter and cheese removed from the market in the 1976/77 marketing year will be largely determined by changes in manufactured product and fluid sales, as most of the expected increase in milk production probably will go into rebuilding commercial stocks. Nonfat dry milk removals likely will be heavy again this spring since no substantial pickup in commercial use is expected.

At the beginning of March, CCC uncommitted inventories of butter and cheese were almost nonexistent but nonfat dry milk holdings were still quite heavy. Uncommitted inventories totaled about 430 million pounds on March 1, more than twice the year-earlier level. With the school feeding programs able to use only modest amounts, domestic donation outlets for nonfat dry milk have become quite limited.


COMMERCIAL DISAPPEARANCE OF
MILK IN ALL PRODUCTS*
BIL. LB.
10.0
9.5
9.0
8.5
8.0
1976
1974
1975
JAN.
MAR.
MAY
JULY
SEPT.
NOV.
* MILK EQUIVALENT
USDA
NEG. ERS 2075-76


USDA DAIRY PRODUCT PURCHASES*
BIL. LB.
1.0
0.5
0
-0.5
1971
1975
1974
1976
JAN.
APR.
JULY
OCT.
* NET REMOVALS, MILK EQUIVALENT, FAT-SOLIDS BASIS.
Δ NEGATIVE FIGURES DENOTE DOMESTIC SALES EXCEEDED PURCHASES
USDA


DAIRY PRODUCT STOCKS *
BIL. LB.
GOVERNMENT
COMMERCIAL
8
6
4
2
0
1973
1974
1975
1976
JAN. 1
APR. 1
JULY 1
OCT. 1
* MILK EQUIVALENT, FAT-SOLIDS BASIS
USDA

USDA recently announced that it will donate 300 million pounds of nonfat dry milk under Title II of Public Law 480. Approximately 100 million pounds is budgeted for use through September 30, 1976. Another 200 million pounds is programmed for use in FY-77, which begins October 1, 1976, and ends September 30, 1977.

Stocks Remain Tight

Commercial dairy stocks remained low on March 1. Dairy products in commercial hands probably were equivalent to about 3.7 billion pounds, down about a third from a year ago.

Commercial butter stocks totaled just under 14 million pounds on March 1, the lowest for that date since 1952, and down 65 percent from a year earlier. Commercial stocks of American cheese, at just under 300 million pounds, were down about 24 percent from year-earlier levels. While this level of commercial holdings is in line with earlier years, it is probably a little snug in light of the recent strength in sales. Manufacturers' stocks of nonfat dry milk at 43 million pounds on February 1 were down almost two-thirds from a year earlier.

1975 Imports

Dairy imports in 1975 totaled about 1.7 billion pounds milk equivalent, well below the 2.9 billion pounds imported during 1974. This decline was entirely the result of lower imports of both American and other varieties of cheese.

For all of 1975, imports of all products subject to quota totaled less than 0.9 billion pounds milk equivalent or only two-thirds of the established quota level of 1.3 billion pounds.

Summary

Milk production in the United States has recovered strongly as dairymen responded to rising milk prices and improved milk-feed relationships. Production likely will continue above year-earlier levels in early 1976 as gains in output per cow offset the relatively small declines in cow numbers. Output for the first half of 1976 likely will show an increase of around one percent or more, and gains of this magnitude could continue throughout the year if milk-feed price relationships remain favorable to dairy farmers.

While farm milk prices will remain 10-15 percent above year-earlier levels this spring, they will be down a dollar or more from the December peak. If demand remains strong and increases in milk production do not accelerate, we could see a substantial seasonal price rise during the second half of the year, although they may not reach late 1975 levels.

Should Dairy Cooperatives Process and Distribute Fluid Milk and Specialty Dairy Products?

Stewart Johnson
Professor Emeritus of Agricultural Economics
University of Connecticut

One reason for caution in cooperative distribution of fluid milk, and in many instances a negative decision, is that there are more important things to do with managements' time and members' money. It is a matter of priorities.

The Main Priority

You've no doubt heard a number of possibilities for priority #1. Among those I've heard recently are:

1. Promotion programs (advertising, education, new product research).
2. Fluid milk distribution by the cooperative (integrate—carry your product more closely to the final consumer).
3. Cooperative unity and strength (maintaining and increasing the dominant cooperative's percentage of milk in the market).
4. Getting a high Class I percentage.
5. Nutritional pricing of milk (protein differential, or some other kind of multiple component pricing).
6. Base plans in paying farmers for milk (Class I base plans, or quotas).
7. Pushing new dairy products—e.g. yogurt, sterile pudding, and aerated cream—by cooperative processing and distribution.

I don't want to denigrate any of these. Apostles for each have their points, and are often persuasive in stating them. And there's some inter-relationship among them. Nevertheless, let me give you my #1 selection, namely "cooperative unity and strength".

There is one thing the dominant cooperative cannot stand, above all others, and that is a persistent downward trend in market share. If this happens, costs of maintaining stability and satisfactory incomes for dairy farmers will be borne by a smaller and smaller group until the temptation to rally around desperate measures may become irresistible.

Furthermore, the blend price of the dominant cooperative relative to that paid others likely will be the major determinant of the trend in market share.

Therefore, the main sub-priorities within my priority choice of cooperative unity and strength are those which enhance the blend of the dominant cooperative relative to the blend received by other farmers in the market.

Mostly this is a do-it-yourself job. The federal government, through market orders, is likely to be of limited help. Cooperative service payments, of dwindling significance under the New York-New Jersey order, are not likely to be extended elsewhere. Market service deductions from non-members are not likely to be increased (the possibility of doing so was denied under the recent New England merger decision). A floor under handling charges and help with timely payments to cooperatives was recently denied in the Upper Midwest recommended decision on order merger. Adjustments in the Class II price, raising it for some products in return for a compensating reduction for last-resort uses by cooperatives, have been denied for Northeast orders. In New England, some slight help might come from reducing the nearby Class II price to the same level as under Order 4 at Laurel, Maryland, or by changing the point of pricing, but even these two minor adjustments may be long delayed. Stronger seasonal price plans under federal orders are not encouraged, though this is the help in maintaining or increasing market share by the dominant cooperative that most likely could be expected from government.

Sub-priorities

It's a do-it-yourself job, then. And, in my book, entering or expanding fluid distribution, with but few exceptions a disaster in the Northeast the past 5, 10, and 20 years, is not the do-it-yourself best answer. What is? My list includes the following:

1. Get handling charges for fluid milk up, and over-order prices when you can.
2. Control the trucking. Own and operate the trucks, or have truckers under contract, perhaps leasing tanks to them so as to have better control. Labor union vulnerability may dictate a preference for truckers under contract to the ownership-operation route.
3. Have large enough manufacturing plants for hard cheese and butter-powder to be efficient, and in the right places. Fill up with milk those plants you do have, even if it hurts the Class I percentage in the market. The Director of the Dairy Division suggested at a February 1975 conference with Northeast cooperatives that New York coops forego the fluid market completely, so that they could avoid manufacturing plant losses from more widely variable supplies than MW plants, a startling suggestion that was quickly rejected, but perhaps ought not to have been.

4. Adopt strong seasonal price incentive plans.
5. Re-examine the possibilities of premiums for the highest quality milk, offset by discounts for lower quality milk.
6. Re-arrange cooperative dues, partly on a per-member basis instead of just on volume, so as to be less vulnerable to loss of the large producers on the main roads.
7. For the same reason, increase stop charges as a part of members' transport costs to the limit that can be cost justified.
8. In financing promotion costs, adopt state laws for uniform deductions where possible. If a cooperative's rate of contribution is higher than the state requirement, or there is no state law, allow the member to ask-out. Don't lose him on account of promotion costs. Keeping and increasing the dominant cooperative's share of the market is too important to let a compulsory cooperative deduction turn the trend the other way.

Probably nobody here will agree completely both with my choice of a #1 main priority, cooperative unity and strength, and with the preceding list of suggestions on sub-priorities in achieving it. Never claiming infallibility, I present them for discussion and modification. My main point is that cooperatives need to consider priorities in deciding whether to go into processing and distribution of fluid milk and specialty dairy products. Unless you have 100% cooperative membership (as in the Buffalo-Niagara Falls market, with an assist thereto by the State of New York), then attention to the main determinants of the trend in market share by the cooperative comes first, well ahead of entry or expansion in fluid distribution, and particularly so in the fiercely competitive markets of the Northeast.

With Other Priorities Taken Care Of, Should Fluid or Specialty Items Be Processed and Distributed?

From here on I'll be covering points from my article in the September 25, 1975 issue of Hoard's Dairyman, plus a few others.

The general proposition I intend to advance is that milk marketing cooperatives, with a few exceptions, should avoid like the plague getting into the fluid distribution business. Particularly is this true in the fiercely competitive markets of our larger cities.

Those already in—and about 10 percent of U. S. processing and distribution of packaged milk is done by coops—probably should stay. This is more likely true in smaller markets where the cooperative has a large share of the market. Even there a long hard look is warranted. What's the return on capital? What about alternative uses of capital (including not deducting it from farmers in the first place)? What's the cost of getting out?

I'll proceed with defense of my proposition, along two lines:

1. Why are co-ops tempted to package and distribute milk, despite the historical record of many failures?

2. Why are returns so low, and who'll make enough money to continue fluid distribution?

One temptation (or trap) is a co-op director's belief that since he's knowledgeable about milk, through producing and first handling, the knowledge should carry over to profitable marketing. The fact is, however, that marketing knowledge having little to do with product—such as labor relations, selling, and collecting—is more important to profits than knowledge of the product.

A second temptation is the belief of a dairy farmer director that nobody else will take the milk to the consumer unless he does. He is apt to think that his co-op's processing and delivery of packaged milk will contribute to a high percentage of Class I milk and a higher blend price. Some co-op directors go so far as to favor their co-op distributor taking milk to city ghettos and out-of-the-way places or types of outlets that nobody else wants. They fail to realize that in extreme cases of non-availability the government steps in. And, further, that the co-op stands to lose members by unfavorable blend price relationships if it insists on serving unprofitable customers. An erroneous conclusion, namely that every person in every location is entitled to a nearby fresh bottle of milk, every day of the year, sometimes traps coops into a losing enterprise, with sad results for themselves and the whole market. The temptation to use your milk cooperative to "do good for the world" by what proves to be profit-less distribution probably leads to more traps than any other.

A third temptation, sometimes a trap, is to use fluid distribution to break into another market. Many people thought that Dairylea's purchase of Whiting in the late 1960's (the business was terminated recently) was for that purpose, and at the time most thought it a good idea for that reason. Eastern's discussions on buying H. P. Hood's fluid business were thought by many to be market-area-expansion motivated. Unless the business purchased is profitable, this, too, is a trap for co-ops.

A fourth temptation is for a co-op to enter into fluid distribution to collect for an account receivable that has gone sour. Frequently, the reason it has gone sour is that it is a nonprofitable business. Usually it continues that way, sometimes after the co-op buys other distribution businesses to put with it.

A fifth temptation is that it is considered better to be with the "wave of the future", overreacting to appeals for vertical integration and producing exactly for market needs. Often it is better to stand on the solid ground of maximum profits in use of capital than to be on the uncertain wave of prognostication of what the future will be like. "Be not the first by whom the new is tried, nor yet the last to lay the old aside," the old farm management adage, applies to processing and distribution as well. "Wave of the future" appeals have led milk marketing cooperatives into unprofitable so-called "sterile" and aerated products.

A sixth temptation is the feeling that with one's own fluid distribution, brand advertising and new dairy products can contribute to higher Class I utilization and blend prices. Again, if the co-op departs from what is optimum for profits of a proprietary distributor, its own blend price will suffer, and, as a result, membership problems will increase.

A seventh temptation is the conclusion of co-op directors or management that it is being "forced" into fluid distribution. A fluid customer may be lost. Manufacturing facilities may be inadequate. The quickest and best way to get an outlet for members' milk may seem to be purchase of a fluid business. A feeling of inevitability should be avoided and other alternatives explored fully before a decision to purchase is made for this reason.

An eighth temptation is the entry into new products or fluid distribution for the sake of publicity value with members. New England experience has been that the time and money so spent might better have been used for more butter, powder, and cheddar cheese manufacturing facilities. The primary hope of management was to make a profit, but another motivation probably was the story it provided as to how the cooperative was "with it" in using the very latest methods and equipment to market a new and different product.

A ninth temptation is the use of, or failure to perceive, faulty accounting procedures. One coop manager proudly proclaimed the profitability of each of several lines of retail distribution, yet analysis by a management expert called on for consulting advice showed that although the parts were profitable, given the accounting system used, the whole was not.

These are some of the temptations that lead milk marketing cooperatives into traps. My stating them still leaves room for the exception—for the rare case in which entry into fluid or specialty product processing and distribution adds to the members' blend price rather than subtracts from it.

If the Coop Doesn't Distribute the Milk, Who Will?

The money-makers in fluid distribution are not the "stand-up fighters" that co-ops are likely to be. Kraftco and Borden, the two largest dairy corporations, recently have abandoned fluid distribution in several large cities. So, too, have United Farmers and Dairylea in New England, and, longer ago, the Maryland Cooperative Milk Producers in New Jersey, as well as many smaller cooperatives.

In the Midwest, Borden announced on September 10, 1975 that it would close its Woodstock, Illinois processing plant, once considered the "plant of the future" by University milk marketing researchers. The Woodstock plant had supplied some 60 independently owned distributors, who in turn served wholesale and retail customers in the Chicago market.

The money-makers, in our large cities, have been of two types— large chain and convenience stores with an assured outlet for their own processing plant, and stripped-down, privately owned firms controlled and operated by one man or a small-numbered team. The latter quite commonly have lower labor costs associated with location outside the center of the city, large volume in a few packages, and intimate control. They act on quick decisions from knowledge in the operator's head, sometimes supplemented by highly selective computer data by someone, figuratively speaking, in the middle of his plant. The firm that can bob and weave has the advantage over the stand-up fighter. The former keeps margins low and a profitable business at the same time. The coop's greater bureaucracy of control, like that of the large corporation, keeps it out of the bob-and-weave category.

Some Additional Considerations

Before a concluding summary, a few additional considerations relative to a decision should be mentioned:

1. If the cooperative is selling bulk milk to fluid distributors, entering direct competition with them by having your own processing and distributing may make the bulk sales more difficult or reduce handling charges.
2. To the extent super-pool premiums are distributed according to Class I sales, your own distribution may keep them higher than otherwise, and give you a greater share. However, this argument would be nullified if distribution of premiums in the market were based on total milk volumes of participants, not Class I sales.
3. Specialty product processing and distribution may give a bargaining lever to convenience store processors who buy

these products from you, and affect handling charges in arrangements to have you handle their surplus milk, seasonal or other.

4. Cooperatives tend to stay too long with losing fluid or specialty product processing and distribution, and more so than private corporations. Immediate accountability to members seems to be more of a restraint to write-offs than accountability to stock-holders.

In Conclusion...

Positive conclusions come easier than negative ones. So my final conclusions are stated positively. When should you go ahead with entry or expansion?

The answer is "yes" if you are the dominant cooperative in the market; your market share, recent past and prospective near future, is increasing; and there are not more important things to do with managements' time and members' money. If other things that are more important in contributing to the blend price relative to others in the market are done, and if there is a reasonably good chance of success—more than 50-50, from hard-headed analysis, of the venture adding to your blend rather than subtracting from it—and you have looked the blind-alley temptations in the face and rejected them as reasons for a positive decision—then full speed ahead!

Opportunities for Dairy Cooperatives in the Processing of Milk and Dairy Products

Ben Morgan
General Manager
Dairymen, Inc.

Before I make any comments, and while we don't agree on many dairy issues, I want you to know that Stu Johnson and I are friends.

It is a real pleasure to be here, to visit with you. After listening to most of yesterday's discussion, and this morning's discussion, I'd like to summarize Stu's talk about like this. "If you're doing a bad job of running your coop, you'd better stay out of the fluid milk business."

As far as DI is concerned, we haven't done and don't plan to do anything that we are ashamed of, that we're not proud to stand up and talk about, or that we feel is illegal in anyway whatsoever. We plan to do the best possible job we know how of representing our dairy farmers in the marketplace.

Now getting to the subject at hand...opportunities for dairy coops in processing milk and dairy products. I find myself again disagreeing with Stu in many areas, but recognizing that when he finally got down to the last 10% he was in the area that we are somewhat familiar with.

What about cooperatives processing milk and dairy products? This must be a planned program. It must be something that you approach with extreme care, and it must be something you can handle as a business proposition.

When you mention dairy products, I consider that you mean butter-powder, cheese plants, condensing and so forth. As a matter of illustrating, I would say you don't get into the fluid milk business the way you get into these. We reacted and got into the powder business, and butter business, and the cheese business because as the large coop in the market, it fell our lot to handle the surplus milk, to bring in the extra supply and to incur the loss without any compensation.

That's the way the system works. That's the way the order program works. We went to the Department and said, "what about a service charge?" When you're in a market where you have seasonal production, and a variation in demand, and where you sell 40%, or even 50% more milk on say Thursdays and Fridays than you do on Mondays, somebody has to take care of production highs and lows. Well, it turns out that if DI is going to maintain the blend, the solidarity of membership and the unity in the coop you must have, then DI has to level the supply. You can't be both the good-will ambassador of the market, carry the costs, and still keep your dairy farmer members. We began to realize this four or five years ago when at the same time we were losing money providing services to the market, we were also being criticized for unduly enhancing prices.

As you know, many people who want coops are the people that don't want to pay for them or the people that want coops to provide a service for nothing. Our members realize the value of a marketing Coop and want it. The opposition doesn't come from the members, it comes from the people that want something for nothing.

We realized that as a coop we must operate as a business, we looked at the overall market situation we're in, which is the Southeast, and looked for alternative approaches to the marketing of milk. Our market is different from the standpoint of milk supply. There hasn't been a year that's gone by that we haven't had to bring in additional milk from what we call the "north country." We maintain an average utilization in excess of 70% and in the winter months it will get up to 85%. This means that any surplus facilities are going to incur a loss and will be a dead cost. So we had to look for some other means to offset our costs of operations.

We could not look to a manufacturing plant like our friends have in Mid-Am, or maybe AMPI, or LOL, that may have 50% of their volume and an ample supply of milk to operate a manufacturing plant year round. They can operate at a profit because they have sufficient volume. But in the southeast we can't operate a manufacturing plant at a profit, yet, we have to have them. So we looked at other areas in which we could offset our costs or we knew we'd be out of business. It's just as simple as that. As Stu pointed out -- what was our idol - our idol was to stay in business!

And to stay in business, you have to pay a competitive price for raw material and you have to operate efficiently and you have to run a sound business organization.

So we looked to fluid milk processing. And our reason for getting into it was to keep DI a viable business, an economic unit. Then we looked at other reasons and I don't even think Stu mentioned the one that we think is most important. And that is the dairy farmers have 90% of the investment in the dairy business in the production while processing represents about 10%.

And when you look at what is taking place in the dairy business and look at who our primary customers are, the Kraftcos, the Bordens, the Pets and so forth, and look where the dairy business stacks up in these conglomerates, in most cases you see it taking a back seat. I'm not so sure it pays the dairy farmer to sit back with 90% of the investments in this business and see their marketing unit taking a back seat in the various corporate structures.

This is particularly true when we know that if we are going to continue to enhance and improve the milk business, we have to get a price for our dairy farmers that will pay them for their labor, capital and know-how that they have involved in producing the milk for the market. To do this we think that the capitalistic structure is so situated that no one is going to say, "Well, listen here, old Gordon Reuhl needs $10 for his milk. That's what we're going to give him, bless his heart. He's a nice guy."

We don't believe that. So you have to have a bargaining unit and to have a bargaining unit you have to be financed. So we looked at alternatives. We went into the fluid milk business to offset the cost of operating DI. We sincerely believe that with a regional cooperative, it's an absolute necessity to enhance the overall growth of our dairy business.

We don't look at the dairy industry like some people look at things. I know a fellow that asked a person the other day, "tell me something, which do you think is the worst - ignorance or simply not caring?" He answered, "I don't know and I don't give a damn."

We don't want to be ignorant and we certainly do care. But when we started into the fluid milk business we felt it required a complete re-examination of our corporate structure. Because if you look and study what's happened to the dairy business, I think all of us that have been involved in it for sometime will agree that most of the foundation capital in the dairy business today was made on the buying side and not on the selling side. This being the case, it means that any structure set up in coops that includes bottling, must be designed to protect the farmer from subsidizing the fluid milk end of the business. We know some think it's easier to take it off the farmer's price than it is to be an aggressive merchandiser!

So, with this in mind, we set up a corporate structure which stresses the fact that DI is the parent. DI is the member and the member is paramount. Members must be involved and they must be protected. Now that may sound funny, here I am, a coop manager, saying we must protect the member from his own business.

Some of this reasoning came through some of the coops we acquired through merger. As we went back and studied their financial transactions we found that they made a profit, but where did it come from? They took it off the blend price! Our position is simply this. If we cannot operate a plant and enhance and increase the income of our members, we close down! And I think with that type of logic and reasoning you end up with management that makes a profit.

We realigned our corporate structure with DI as the parent. Flav-O-Rich, which is our fluid milk bottling operations, is one of our wholly owned subsidiaries. Flav-O-Rich now has 15 plants. Since DI must be operated on a business basis, we have what we call strategic corporate planning. We have budgeting. We have goals, and these are reviewed each month to see how we're proceeding. We have an annual budget and we have a 5-year goal. We think we know where we're going to be 5 years from now and we think this is the only way you can be involved. Our goals involve a realistic return on investment. Our goal is a return of 20% and we have exceeded this in many of our operations. Our profit goals are based on 4% of gross sales. These are attainable and reasonable goals.

Coops have been accused of so many things, that I almost get venom in my blood just talking about these accusations. Some people think that if you're running a coop, you're supposed to be dishonest. At least that's just one of the requirements based on what some of the people on the outside advocate.

In our financial statement last year we showed net profits of something like $6.2 million, net margins, and $3.2 of this out of our Flav-O-Rich plants. Immediately we heard, "well, hell anybody can make profits if you take it off the farmer." Touche-Ross happens to be our auditing agency and probably audits more coops than anyone of the international CPA firms. So we asked them to make a detailed audit of all of our facilities including DI, the parent and the bargaining unit, to make sure that every one of our divisions were charging our plants the same price they charged every other customer they were supplying. I knew what they had been told to do, but I was going to be sure they did it. Because as Stu mentioned, a lot of people think that if you're bargaining you shouldn't be selling milk to people you compete with. Now it's all right for General Motors, U.S. Steel, Hunt and Wesson, etc., everybody can do it, but not dairy farmers. We don't buy that philosophy. But we think if you do it, you must do it on a business basis.

Anyway, I have a certified statement that we are very proud to show from Touche-Ross to the effect that we charged our plants for the fiscal year of 1975 the same price we charged everyone else.

Why shouldn't a dairy farmer run his own business in such a way that he can charge his own plant the same price as he charged everyone else? Why shouldn't we have a certified audited statement to that effect and still make additional profits to offset the cost of operating his organization? Why shouldn't we put additional profits into his pockets from the operation of his dairy farm? I don't think there's one thing [illegible]

But you have to be a business man and you have to employ good people and you have to pay them well. You have to use decentralized management, and you have to operate by the P & L statement. You give a man a job, you make him responsible for it, if he does it, you pay him, if he doesn't you fire him. That something that's hard for coops to understand. We're more inclined to go along -- well, old Joe's a good fellow, he knows director Jones. We keep him on even though he lost us a million dollars last year. But this is getting to be less and less the case. If you're going to take that approach, you're right Stu, you'd better not be in the fluid milk business, because you'll get trimmed ... and fast.

In other words use decentralized management, employ good people and pay them well. We employ people that believe, that believe in your coop, that believe in working for dairy farmers and believe in doing a day's work for a day's pay. That's what dairy farmers believe in. We can and are finding an awful lot of other people who believe in the same thing. So we think with this type of corporate structure, that has a positive attitude and believes the opportunities are unlimited and the future is sound, can be successful if we approach it in a business way. And it makes the dairy business a good financial venture for young people. We're proud to say that between 30 to 35% of our DI members are under 35 years old. And we have a number of young dairy farmers going into business today. We find that they show extreme enthusiasm by virtue of the fact they are getting into a business that represents them all the way from the farm to the market place and they feel it's a business that's operated like a business.

What are some of the things that we can do? Having a regional coop that's in the fluid milk processing business -- we're competing with our customers, but we're competing with them on a sound basis. The people that raise the most Cain are the people who buy milk from non-members and pay less than the market price. I guess that's part of the old dairy industry game. We don't worry about it. We seem to get along.

But what are some of the things we can do in the market? Basically, I think this is coming. You extend your service as a coop into the market from delivering milk in 5500 gallon tanks to delivering milk to a platform or dock in the customer's carton. And we're doing this. We're serving tier two stores -- A & P's, Winn-Dixie's, the Colonials. And we're telling these people, "look, you don't have to spend anymore money on bricks and mortar, there is enough brick and mortar in the Southeast to bottle all the milk we can sell for the next 10 years. Any more bricks and mortar, and somebody's going to pay for it and it's going to be either you or the farmers. We're going to try and keep it from being the farmers.

On the other hand, wherever we have a plant, you have a plant. We'll add product cost, plus the processing cost, and we'll put it in your carton for you to pick up. We prefer for them to pick it up. After all, they are the distribution marketing specialists. We'll get some takers and we've got a lot of people interested.

Most of the time you find that a chain store went into the fluid milk business because someone had the grips on him like a Kraftco or like a Borden Co. They knew part of it was resentment and part of it was the price. So what we're doing rather than trying to fight the tide (to the best of our ability) are analyzing what's taking place in the market place and adjusting to it.

You know most organizations were designed and built to solve problems that existed yesterday. Now what we're trying to do in DI is design an organization that will be here tomorrow and change as the problems change. We think this enhances competition.

Sure we have our own private label, Flav-O-Rich, and we advertise that but we believe that milk is fast becoming a commodity. You're kidding yourself spending a lot of money on brand advertising. That's the reason we spent $4 million a year on generic advertising because we are interested in selling milk and dairy products. But we do have Flav-O-Rich and we advertise it.

Another reason I think a coop ought to be in the fluid milk bottling business is to preserve competition in the fluid milk distribution business. How do you do that? Some of the most competitive operations we have in the southeast are small family-owned dairy plants. But like farms, the family tends to lose interest after the 2nd and 3rd generation. Everytime they have another generation come along they get a little less affluent and a little more lazy. We are a market for these people. They can sell us these operations because they have some good people or we have the people, and we can make them pay.

In Monroe, Louisiana, area there were three little plants. DI acquired all three of them and put them together. They were three losers. Their primary competitor was Borden's and Foremost. We acquired them, put them together and we started making a profit. We're making a nice profit, last month we had over 25% return on investment. But you know what happened to us? By golly, we got an antitrust suit filed against us for acquiring these three little plants and putting them together. Well, now you say, my gosh that's just a small part of the Louisiana market, about 2%, a drop in the bucket. But you've got to look and see why we've got this antitrust suit filed against us. I know why. No one's ever told me, but I think I understand the economics and business pressure, and political pressure enough. The Borden Company has 60% of that state's business and knew that we were going to be viable competition!

I won't say anymore other than to re-emphasize that a regional coop can be efficiently operated. I think dairy farmers are just as capable, with the right type of corporate structure and the right type of forward attitude and the right type of management. to operate just as good a business as Foremost, Sealtest, Bordens, or Cumberland Farms. I think we can and I think we'd better look at the markets and start doing it.

Now what does all this do? I feel myself being forced to stick to the overview for some reason. What does this do? It allows the building of a coop marketing program that reflects a good, efficient business and it confers the advantage of the viable competition in the market place to both producers and consumers.

This is a positive approach to today's advanced technology, production and marketing. This is building and adjusting an organization to today's problem and tomorrow's projections -- not yesterday's problem.

We believe this means more money for our dairy farmer members and less cost for consumers. We believe it means a growth market for milk and dairy projects in the Southeast which is the area we depend upon totally.

In our opinion, to philosophize a little, we think the coop of the future cannot survive from premiums. How can a dairy farmer really be getting a premium when we lost half of them in the last 10 years, and we're losing them now? In fact, production is not increasing as fast as sales. It isn't a premium, it's a partial payment for coops to handle surplus milk that no one else wants. After the Deans, the Bordens and the Brockmans get what they want for specialized products and so forth, they call us about moving their surplus milk. Then, come fall, they ask about bringing in some extra milk. But yet, when we charge a premium, they say we unduly enhance the price. I don't buy that stuff.

We're dealing with food which is everybody's business and we're involved in the most controversial food business. This is the reason we must operate and we must develop our business so that when we talk about enhancing our business we're not only talking about enhancing our member's income, but we're talking about the overall economy and how we're enhancing the growth and development of the dairy industry. We recognize that as a coop, we are operating as though we were in a fish bowl. So we operate in a fish bowl, to the best of our ability we do what's right and work hard at it.

There's something else that's involved. We think what ever you do as a coop must have a ring of appeal. Maybe it's sex appeal but it must have a ring of appeal to what people want. Now what do people want? They want efficiently produced, processed and marketed food.

Gary Hanman mentioned Aileen Gorman attending our board meeting. This young lady participated in our board meeting. She was a part of the meeting. She saw the financial statements and the whole thing. She told us, "We're not for the cheap food policy -- we believe in our capitalistic society -- we believe in free enterprise and we know you've got to have a profit if we're going to continue to have food."

Maybe that isn't what you've been reading in the papers. She said, "we like to see dairy farmers make a profit. We were surprised that these people are dairy farmers sitting here, making the policy and establishing the procedures for running this business. We thought it was all by management. But we're glad to see what we saw." She went on to say, "we want to see dairy farmers make a profit and we want to see profits made throughout the industry but what we don't want to be is 'ripped off'. We've been told we're being ripped off by NAMMR, Justice Department and FTC and the computers. What we need is communication. Not only about our industry and about our product, but also about our business, our coops."

You know we have in the U. S. the most efficient production unit for food of anywhere in the world and with specific reference to the dairy business there are only two places in the world that can produce milk cheaper than we can, and that's New Zealand and Australia. And their total production is about equivalent to 1/5 of our annual needs. How many consumers know that they have this efficient production machine? It's the family farm. You keep the entrepreneurship at the local level, it's a family business. They participate in it. They see the fruits of their work. It's decentralized management at its best and it's the reason for our efficient production system. Many of you have been abroad, and seen what they have in Russia and other areas where you have communal farms.

This same American farmer that's so efficient in producing is woefully inadequate in the market. Now how can we as people involved in agriculture, people dependent on the dairy business, preserve this production efficiency. I think we do it through the cooperatives that are operated on a sound business basis and allow this dairy farmer to integrate forward so he can compete in this oligopolistic market, so he will at least have an equal chance to survive.

When we put all this together in DI and sit down and discuss our bottling plants, we say, yes, regional cooperatives with the proper corporate structure and proper management procedures should process their own milk. Not all of it, but a sufficient amount of it to cover the costs of maintaining and serving the market which no one else in our area is set up to do or wants to do. This is one of the parts of the marketing business I'd like to give to someone else, because it's a costly proposition, but somebody has to do it, and if we are going to do it, we must have a return on our investment.

Now if we don't do that, what are our options. I think basically there are three options -- cooperative agriculture which I've just discussed is one. Another option is corporate agriculture. Instead of the cooperative integrating forward the corporation integrates backward. We have a good example of this in the poultry business. We have a good example in the grain business too, although they're not integrating backwards, you know who has the say so about what grain's going to bring. And with this corporate agriculture integrating backwards, we see the family farmer fading out of the picture. He will loose management incentive and entrepreneurship needed at the local level. It will be like some people I know in the poultry business, they're working for so much a bird and they could care less. They don't share in the risk. I think producers should share some of the risk. I think the coop member should be willing to invest the money on a sound business basis to integrate forward rather than sitting on his haunches and complaining to the government while corporations integrate backward and absorb him.

The third option is government agriculture. And I think sometimes this is what our Justice and FTC people want. I really don't call it a Justice agriculture, I call it a lawyer's agriculture because, I hate to tell you how much we have to pay lawyers to prove that we ought to have a cooperative agriculture. Another way I like to describe government agriculture -- can you imagine our farms and our agriculture run like the post office?

Again I re-emphasize as we look ahead that most businesses were designed to take care of the problem that just happened. We would hope that we in the dairy business and in coops can design and adjust our business to take care of the problems at hand and the ones we foresee and adjust our programs if our projections are not exactly as we expected.

In this bicentennial year, the Board of Directors and Staff of DI are dedicated to the preservation of America's food production unit - the family farm. In our case, we believe the integrated bargaining, and marketing coop is the answer to today's oligopolistic economy.

We firmly believe that the degree of success obtained in this direction will go a long way in influencing the future strength of our nation.